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S. HRG. 98-1088 Pt. 2

Senate Hearings

Before the Committee on Appropriations

Department of the Interior and Related Agencies Appropriations

Fiscal Year 1985

98th CONGRESS, SECOND SESSION

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**DEPARTMENT OF THE INTERIOR AND RELATED
AGENCIES APPROPRIATIONS FOR FISCAL YEAR
1985**

TUESDAY, MAY 1, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD-138, Dirksen Senate Office Building, Hon. James A. McClure (chairman) presiding.

Present: Senators McClure and Cochran.

DEPARTMENT OF AGRICULTURE

FOREST SERVICE

STATEMENT OF JOHN B. CROWELL, ASSISTANT SECRETARY, U.S. DEPARTMENT OF AGRICULTURE

ACCOMPANIED BY:

R. MAX ROBERTSON, CHIEF, FOREST SERVICE

F. DALE ROBERTSON, ASSOCIATE CHIEF, FOREST SERVICE

**J. LAMAR BEASLEY, DEPUTY CHIEF, PROGRAMS AND LEGISLATION,
FOREST SERVICE**

BUDGET REQUEST

Senator McCLURE. Good afternoon. This is the time scheduled to review the fiscal year 1985 budget request for the Forest Service. The Service's fiscal year 1985 budget requests total \$1,433,824,000, an increase of \$71,474,000, for a 5-percent increase over fiscal year 1984 appropriations to date.

The Forest Service also has pending before the committee a fiscal year 1984 supplemental request for \$34,301,000 for firefighting expenses and a proposal to transfer \$10,814,000 from prior-year unexpended funds to cover 1984 pay costs.

Our witnesses today are Mr. John Crowell, Assistant Secretary of Agriculture for Natural Resources and Environment, and Mr. R. Max Peterson, Chief, Forest Service. I want to welcome both of you back before the committee today, and if you will just introduce your colleagues, Mr. Crowell, we will proceed directly with our questions. Your statements will, of course, appear in full in the record.

PREPARED STATEMENTS

Mr. CROWELL. It was our understanding, Mr. Chairman, that you did want to devote a limited amount of time to the questions, so, both, the Chief and I are prepared to submit our statements for the record without even taking the time to summarize them.

Senator McCLURE. Very good.

[The statements follow:]

STATEMENT OF JOHN B. CROWELL, JR.

I welcome the opportunity to appear before you today to discuss the FY 1985 budget for the Forest Service. I am accompanied by R. Max Peterson, Chief of the Forest Service, Associate Chief, F. Dale Robertson and the Deputy Chiefs in charge of each of the Forest Service programs.

In his State of the Union Address, the President again emphasized the need to bring our mounting Federal deficits under control by limiting the size and scope of government. He has pledged support of the Administration for a bipartisan effort to reduce Federal deficits to a significant degree.

To help achieve this goal, the 1985 budget for the Department of Agriculture is austere. Most program areas are reduced or held to fiscal year 1984 funding levels.

The fiscal year 1985 program level proposed in the Forest Service budget is just over \$2 billion, a \$26 million increase over the Fiscal year 1984 current estimate. This total includes an \$80 million increase in Payments to States.

Even though spending for on-the-ground programs is not being increased, receipts generated from public lands administered by the Forest Service are expected to increase nearly 20 percent to about \$1.6 billion. This is primarily because we anticipate improved rates of harvesting of timber under contract and rising income from oil and gas leases. It reflects both improvement in the economy, and efforts of this Administration to bring the American people a return from the public lands.

Before I discuss highlights of the Forest Service budget, I think it is necessary to cover a number of ancillary issues: land management litigation; proposed recreation fee legislation; proposed payments to states legislation; and the draft 1985 RPA Program update.

Land Management Litigation

In my testimony of a year ago, I discussed some of the implications of the October 1982 decision in State of California vs. Block by the United States Court of Appeals for the Ninth Circuit. That decision upheld a lower court ruling that the nationwide environmental impact statement prepared as part of the RARE II recommendations was legally inadequate. I noted the serious implications of the decision and discussed the alternatives -- Congressional resolution through enactment of wilderness legislation with sufficiency language, or administrative resolution through land management planning.

Our reevaluation of roadless areas through the planning process is proceeding, but it is necessary to report that this has been disruptive to our ability to initiate or continue multi-year projects dependent on future land allocation decisions.

We are fast arriving at a point on some national forests where the Forest Service will not be able to meet targets set out in appropriations acts for timber sales, mineral exploration and development, hydroelectric projects, range and wildlife habitat improvements, and fuelwood projects by concentrating those activities in already roaded areas on those forests. We need to make the areas proposed for nonwilderness on these forests available for management.

Proposed Recreation Fee Legislation

Background

During the past several years, there has been discussion about increasing revenues from National Forest System recreation fees to help close the gap between Forest Service costs of providing recreation opportunities to the public and the amount of fees currently collected from recreation users. New legislation would be necessary if revenues from recreation use are to be materially increased.

The 1985 Forest Service budget proposal includes a projected increase of \$25 million in revenues from recreation user fees. We are still reviewing the draft but anticipate that proposals will include relaxation of the present restrictions on facilities for which user fees may be charged. We are also considering a proposal to allow charging admission fees in some heavily used congressionally designated recreation and wilderness areas. The proposals would not change or affect the present method or authority used for recreation special uses such as ski areas or recreation residences. Possible legislation has been discussed with various interests and recreational user groups. We are continuing these discussions and plan to complete a proposal and transmit it to Congress in the near future.

Proposed Payments to States Legislation

The Department has under consideration a proposal to change the way receipts from National Forest System lands are distributed to the States for the benefit of the counties where those Federal lands are located. Present law--dating from 1908--requires that 25 percent of the gross receipts from such lands be paid to the counties to be used for public schools and roads. The change being considered would replace this procedure with one that would make payments equivalent to what would have been paid if the National Forest System lands were privately owned and taxed accordingly. A key provision of the proposal is that no county would receive less as a result of the proposed change than it has been accustomed to receiving.

In advancing this tax equivalency proposal, we seek to create a system of compensation to the counties that (1) provides them with a "normal" tax base that will then provide an equitable distribution of the property tax burden to all property owners, (2) furnishes a constant and thus predictable revenue flow to the counties, (3) eliminates the possibility in the future of "over-compensating" a few counties for the presence of National Forest System lands, and (4) removes the present disincentive to Federal investments in the National Forests and Grasslands which results from the likelihood that the returns on such investments will flow primarily to the States.

The proposal would require legislation to implement. Before advancing any legislation for the consideration of Congress, however, the Department is seeking the views of some 44 national environmental, conservation, and forest industry associations and from State and county organizations. A description of the proposal has been sent to these organizations with a request for comments by June 15. Comments will be evaluated to determine need for revision before any legislation is submitted for the Administration's approval and submission to Congress. The proposal has also been widely distributed to Members of Congress whose States or Districts contain National Forest System land.

1985 RPA Program Update

On January 10, 1984, the Forest Service invited public comments on the draft environmental impact statement for the 1985-2030 Resources Planning Act Program. The draft will be used to update the program which helps to guide Forest Service activities. Those activities include cooperative assistance programs with states and private landowners, forest and range research, and management of the 191-million-acre national forest system. This is the third such program prepared by the Forest Service to fulfill requirements of the Forest and Rangeland Renewable Resources Planning Act of 1974 (RPA). The first RPA program was developed in 1975 and it was updated in 1980.

RPA requires the Forest Service to develop a program for all its activities for the next five years and at least the next four decades, 1986-2030. Formulation of the RPA program is based on an assessment of future demand for and supplies of those resources and the productivity and efficiency of Forest Service programs in increasing supply. A 1984 supplement to the assessment prepared in 1979 indicates that demand for most products will rise more rapidly over the long term than supplies.

Thus, it is anticipated that real prices for wood products and other outputs will be higher unless supplies increase or utilization improves more than expected. The draft program statement examines nine alternatives for Forest Service activities. The alternatives range from one substantially below the current level and mix of activities to several which are substantially higher for some or all resources. The alternative finally developed will represent our recommendations on the course for Forest Service programs beginning in fiscal year 1986.

1985 Budget

Turning to the 1985 Forest Service budget, I would first like to explain our proposals for the timber, minerals, and recreation programs which now generate, or have the potential over several years to generate revenues that equal or exceed program costs. As I have often stated, the National Forest System is a tremendous asset which can contribute directly to national economic well-being. National Forests contain over 50 percent of the Nation's present standing softwood sawtimber supply and an estimated 25 percent of the potential domestic energy resources of oil, gas, coal and geothermal steam. There are also important deposits of such strategic minerals as cobalt, tantalum, molybdenum, and the platinum group metals.

In fiscal year 1984 total Forest Service receipts are expected to be \$1.3 billion growing to \$1.6 billion in 1985. The portion of the 1984 receipts coming from the Forest Service timber program is expected to be almost \$1.0 billion, growing to over \$1.1 billion in 1985. In addition, mineral receipts are expected to increase by about \$11 million during the same period.

Resources on National Forest System lands will continue to be used wisely to meet public needs. It is a basic principle that the productivity of the land will be protected in all Forest Service programs. We are also placing greater emphasis on the compatibility among resource uses such as timber, recreation, fish and wildlife. As part of the planning and decision making process, there must be careful consideration of the environmental, economic and social impacts of Forest Service resource management activities.

Timber

The Administration has addressed the problem of large volumes of Federal timber under contract to purchasers at prices that are uneconomical in

relation to wood product prices which have prevailed for several years by making available without interest 5-year extensions of sales purchased between January 1, 1976 and January 1, 1982.

The fiscal year 1985 budget is based on the assumption that some of the large volumes of timber under contract at high prices will be operated. The Forest Service anticipates it may have about 40 billion board feet under contract at the end of fiscal year 1984, 25 to 40 percent of it at possibly economically inoperable prices.

The fiscal year 1985 budget calls for a level of new sales at 11.2 billion board feet. Additionally we anticipate that despite the 5-year extension policy some volumes will be defaulted. Thus, we expect to be re-offering 200 to 400 million board feet from defaulted sales in 1985 so that the total contemplated sales program would be 11.4 to 11.6 billion board feet. We anticipate that 11.2 billion board feet of national forest timber will be harvested in fiscal 1984, and that it will generate almost \$1 billion in receipts.

The budget also includes funds for advance work on sales to be offered after fiscal year 1985. The Administration's economic assumptions at the time the budget was formulated expected 1.7-1.8 million housing starts in fiscal year 1984 rising to 1.9 million in fiscal year 1985 and approaching 2 million in fiscal year 1987. To date calendar year 1984 housing starts are running at just about the projected level.

Minerals

The budget for the minerals program is \$29 million. This is about a 14 percent increase above the 1984 appropriation. The increase recognizes the high rate of return from receipts generated by the program. The increase will continue the development of oil and gas resources, strategic minerals, and geothermal energy from the National Forests. Mineral receipts generated from the national forests in 1984 are expected to be about \$126 million.

Recreation

The 1985 budget proposal for recreation use is \$97.5 million, a 2 percent decrease from the amount appropriated for fiscal year 1984. The primary effect will be to shorten the season during which some campgrounds and other facilities will be open. The Forest Service will continue to emphasize its volunteer program to supplement appropriated funds in the operation and maintenance of these recreational facilities. Where feasible, private concessionaires are being encouraged to contract for management of the more developed facilities.

In the long run a greater share of the cost of providing recreational opportunities and services should be borne by the people actually receiving the benefits. The 1985 budget proposal contains an estimate of \$52.9 million in receipts from recreation admission and user fees. Approximately half of this is associated with proposed new legislation which I mentioned earlier.

There are two other program areas I would like to discuss in these highlights.

Research

The 1985 budget for Forest Research is \$103.1 million, 5 percent less than the 1984 appropriation. This decrease continues to reflect the Administration's objective to improve efficiency and reduce costs.

Actions planned in 1985 to help achieve these objectives include closing 2 research locations, terminating an additional 11 research works units and eliminating 100-150 full-time equivalents (FTE's) at those facilities and at other laboratories that would continue operation.

Again, we are proposing to give a higher priority to work on acid precipitation. In other areas we will delay or terminate the least important work, rather than make drastic changes in the emphasis given to broad programs.

State and Private Forestry

The FY 1985 budget for State and Private Forestry is \$25.5 million, a reduction of some 58 percent from the FY 1984 appropriation. The Forest Pest Management program will be \$15.5 million which is about 47 percent less than the 1984 appropriation. The policy of suppressing pests on Federal land only, which was proposed in the FY 1984 budget is again proposed for FY 1985. All grants to the State Forestry Departments will be terminated except for the \$3 million annual grant to the State of Minnesota to be used for forestry which will enhance the local job opportunities diminished by Congressional enlargement of the Boundary Waters Canoe Area in 1978.

The reduction in funding again proposes substantial changes in the Federal relationship in trying to improve management of forested lands in nonindustrial private ownership. Instead of cost-sharing for various protection, management, and technology transfer activities, the Federal role will be more limited and more specifically directed at issues of national importance. The Forest Service will continue to provide technical assistance in many areas and to collect national data.

After the Chief makes a short opening statement we will be glad to respond to any questions you may have.

STATEMENT OF R. MAX PETERSON

I appreciate the opportunity to appear before you today to discuss the 1985 budget for the Forest Service. Before providing additional information on the budget proposals for 1985, I would like to review our recent accomplishments:

Highlights of 1983 Accomplishments

The overall emphasis in Forest Service activities this past year was placed on reducing costs and improving efficiency while still providing service to the public.

Some of the major steps taken included collocation of some field units and consolidation of some functions. For example, we merged Research support services with National Forest System Regional Offices in Portland, Oregon and Odgen, Utah, and the Arapaho-Roosevelt National Forest with the Rocky Mountain Station. We completed the combination of the State and Private Forestry Area Office responsibilities with those of the Regional Office in Atlanta, Georgia.

Other efforts included assignment of special teams to develop ways to improve productivity and reduce burdensome paperwork, apply new technology for data and word processing, and reduce the costs of constructing roads.

Forest Research - Emphasis in 1983 was placed on: (1) expanding timber supplies through improvements in wood utilization; (2) continuing

development of integrated pest management; (3) studying old-growth wildlife habitat relationships in the Pacific Northwest; (4) completing the fifth year of Forestry Intensified Research (FIR); (5) entering the arena of genetic engineering to increase timber growth and improve their resistance to disease; and (6) directing more than \$1.6 million into research on the impact of acid deposition.

State and Private Forestry - Programs emphasized improving productivity, production, and protection of timber lands.

Major activities in 1983 were completing 12 State forest resource plans and 17 draft plans; completing a National analysis on the efficiency of Fire Protection on non-Federal wildlands by use of "Fire Economic Analysis;" producing energy by improved technology transfer; and assisting in extending wood resources by 116 million cubic feet of final products.

National Forest System

Timber - In 1983, 11.1 billion board feet of timber were sold--an 11 percent increase over 1982, and 9.2 billion board feet were harvested compared with 6.7 billion board feet in 1982. The 37 percent increase in harvest from 1982 reflects improved economic conditions. Receipts generated from this harvest level were nearly \$400 million--approximately a 60 percent increase over 1982.

The need to maintain a high timber program into 1984 and 1985 is critical to meet anticipated increased construction demands. Economic indicators are moving upward and there continues to be demand for housing.

Minerals - Over 30,000 mineral operating plans were processed in 1983--a 3 percent increase over 1982. This program generated over \$132 million in receipts.

Recreation - Lands administered by the Forest Service continues to account for about 42 percent of all recreation visitor-days use on Federal lands. In 1983, 228 million recreation visitor-days were recorded. This program generated over \$27 million in receipts--a 10 percent increase over 1982.

Grazing - In 1983, use remained approximately the same as 1982. But receipts were down about 18 percent from 1982 as a result of reduced fees.

We also met or exceeded funded targets for fuels management, reforestation and stand improvement, trail construction, range improvements, wildlife habitat improvement, and landline location. A detailed review of 1983 accomplishments is included in the Report of the Forest Service for fiscal year 1983.

1985 Budget

We will continue our efforts to improve productivity and efficiency within the Forest Service. During FY 1985, we will emphasize:

- continued consolidation of administrative support activities where practical and cost effective;
- review of industrial-type activities to see if some of these could be accomplished cheaper by contract;
- intensified cash management and debt management activities;

- closing printing plants, travel offices, and some Research work units;
- electronic data and word processing;
- reducing employment in GS 11-15 grades through attrition and redesigned jobs; and
- continued ongoing relationship providing advice and consultation to state forestry agencies from all program areas.

There are several specific items which I would like to make the Committee aware of:

Pinchot Institute for Conservation Studies

We are proposing to fund the Institute in the amount of \$280 thousand from benefiting appropriations within our regular line item budget. In addition to this amount some facilities maintenance money will be expended to keep existing facilities in a reasonable state of repair. No tours will be conducted although the estate will be open to visitors during regular work hours.

Oregon and California Grant Lands

Funding in the amount of \$9.2 million is proposed within our budget to manage the O&C lands administered by the Forest Service. This proposal implements the 1985 President's Budget decision that each agency separately present and justify the program for the O&C lands it administers as a part of its own budget request.

Court Rulings on Use of Herbicides

The United States District Court for the District of Oregon and the Ninth Circuit Court of Appeals have ruled that Federal agencies cannot rely on the Environmental Protection Agency's registration of pesticides under the Federal Insecticide, Fungicide, and Rodenticide Act or that Agency's analyses of the effects of pesticides on human health. The District Court in Oregon recently enjoined the Forest Service and the Bureau of Land Management from all spraying of herbicides within the Forest Service's Region 6 (Oregon and Washington) and within the BLM districts within the State of Oregon until we complete a worst case analysis. This injunction applied to the spraying programs in their entirety, including the use of herbicides in research and progeny testing programs, in nurseries, in noxious weed control programs, and in timber stand improvement programs where herbicides are injected directly into the trees. Although we are currently working on a risk assessment, this injunction and the cloud this ruling spreads over EPA's registration process may have significant effects on the Forest Service's ability to manage the forest resource in an efficient and effective manner.

I would like to add Mr. Chairman that 1984 is the 40th Anniversary of Smokey Bear and there is a host of activities taking place to highlight forest fire prevention.

We will be happy to answer any questions you may have.

Forest Service

Major Considerations

- Economic recovery
- Housing starts and pent-up demand
- Increased receipts to the Federal government
- Increased Forest Service efficiency
- Research backup for future resource and technology needs
- State and local responsibilities and resource supplies

Summary Comparison

- FY 1985 Regular Appropriations are about the same as FY 1984.
- Permanent Appropriation working funds are 11 percent lower than 1984.
- Payments to States are 39 percent higher than 1984.
- Trust Funds are 14 percent lower than 1984.
- Overall funding, including Payments to States is about one percent higher than 1984.
- Overall funding without Payments to States is 3 percent lower than 1984.
- Work force is about 2 percent lower than 1984.
- Receipts from National Forest lands are about 20 percent higher than 1984.

Forest Service

Summary Comparison

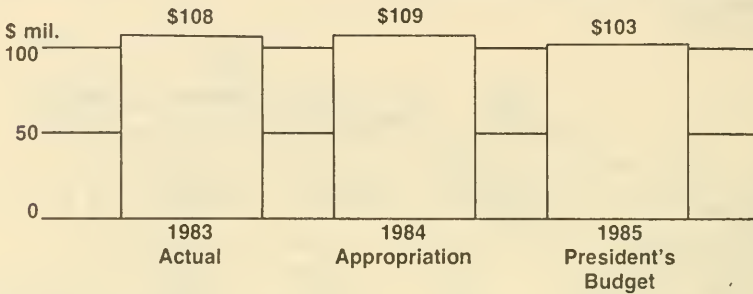
(\$ millions)

	1983 Actual	1984 Appropriation	1985 President's Budget	Change from 1984
Regular Appropriations	\$1,561	\$1,440	\$1,434	\$ -6
Permanent Appropriations:				
Working Funds	153	159	142	-17
Payments to States	144	204	284	+80
Trust Funds	274	216	185	-31
Total	\$2,132	\$2,019	\$2,045	\$ +26
Work Force (FTE) Ceiling	42,350	40,250	39,500	-750
Receipts	\$959.8	\$1,314.7	\$1,577.4	\$ +262.7

Research

- Overall funding is about 5 percent lower than 1984.
- Work Force is about 5 percent less than 1984.
- High-priority research will be maintained particularly in:
 - Timber Management and Genetics Research
 - Protection of Resources
 - Acid Rain
 - Old Growth Wildlife Habitat
- Will emphasize improved efficiency and reduce cost by streamlining the Research Organization:
 - Terminate 11 work units
 - Close locations at Sewanee, Tennessee and Columbia, Missouri.

Forest Service Research



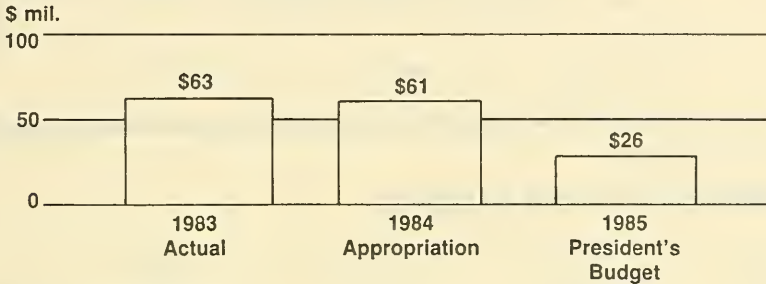
1985 Program Emphasis:

- Timber Management and Genetics
- Protection of Resources
- Acid Rain
- Old-growth Wildlife Habitats
- Forest Economics and Inventory/Analysis
- Forest Products and Harvesting
- Range, Recreation, Wildlife, Fish, and Watershed

State and Private Forestry

- Overall funding is 58 percent lower than 1984.
- Work Force is 20 percent lower than 1984.
- Emphasis is on Pest Management on Federal lands.
- Almost all Grants to States will be discontinued.
- Still maintain \$3 million grant to Minnesota for BWCA.
- States will have an opportunity to fulfill their responsibilities for natural resource management and protection.

Forest Service

State and Private Forestry**1985 Program Emphasis:**

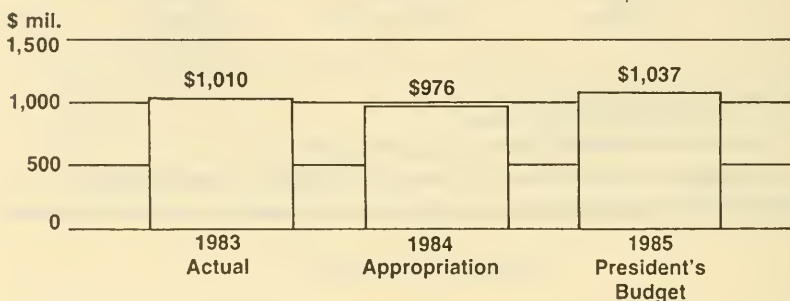
- Forest Pest Management on Federal Lands
- Technical Assistance and National Data Collection and Analysis

National Forest System

- Overall funding is 6 percent above 1984.
- Work Force is 2 percent above 1984.
- New timber sale offerings are 11.2 BBF:
 - Allows for increased sale offerings in the future.
 - Allows for an additional 200-400 MBF of defaulted timber.
- Harvest is estimated at 11.2 BBF:
 - Housing starts estimated at 1.9 million units by 1985.
 - Housing starts estimated at 2.0 million units by 1987.
 - 1.6 million units in 1983.
- Will complete the feasible reforestation backlog.

- Minerals funding is 14 percent above 1984.
- Allows for administration of more complex cases.
- Road investments will be adequately maintained.
- Fuels treatment will be emphasized for fire protection.

Forest Service National Forest System



1985 Program Emphasis:

- Timber Sale Offerings—11.2 BBF and Harvest Administration 11.2 BBF
- Advance Timber Sale Preparation Work
- Oil, Gas and Mineral Leases and Claims
- Fuels Management

Construction

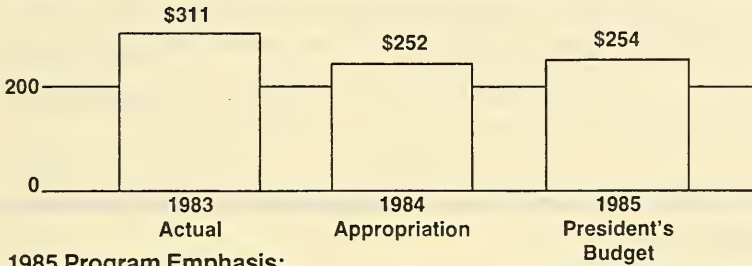
- Appropriated funds are about one percent over 1984.
- Work Force is about the same as 1984.
- Will emphasize access for timber sales.
- Includes critical support facilities--particularly for health and safety hazards.

Forest Service

Construction

(Excludes Timber Purchaser Credit Program)

\$ mil.
400



1985 Program Emphasis:

- New access for timber sales
- Critical support facilities, particularly health and safety hazards

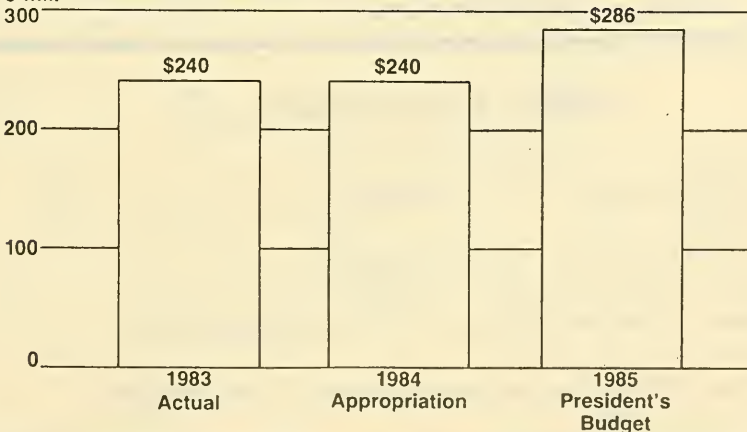
Timber Purchaser Credit Program

- Timber Purchaser road credits will increase by 19 percent over 1984.
- Supports the 11.2 BBF of sale offering.
- Is an "off-budget" item.

Forest Service

Timber Purchaser Credit Program

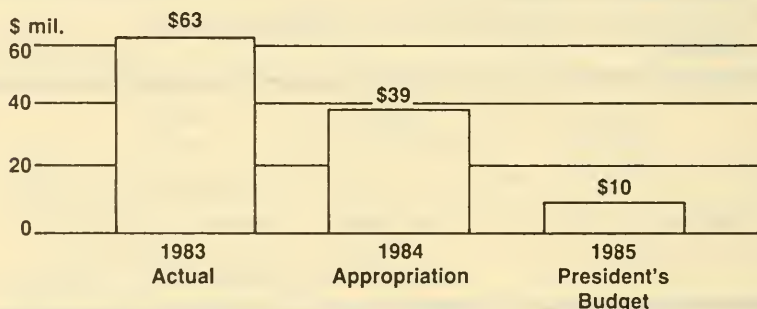
\$ mil.
300



Land Acquisition

- Overall funding is 75 percent below 1984.
- Work Force is 12 percent below 1984.
- Allows for closing existing cases, deficiency awards, and cash equalization for land exchanges.
- Allows for most critical land acquisition for BWCA and Lake Tahoe Basin.

Forest Service Land Acquisition

**1985 Program Emphasis:**

- Closing existing L&WCF cases
- Administering carryover cases
- Acquire the most critical properties in the Boundary Waters Canoe Area and Lake Tahoe Basin

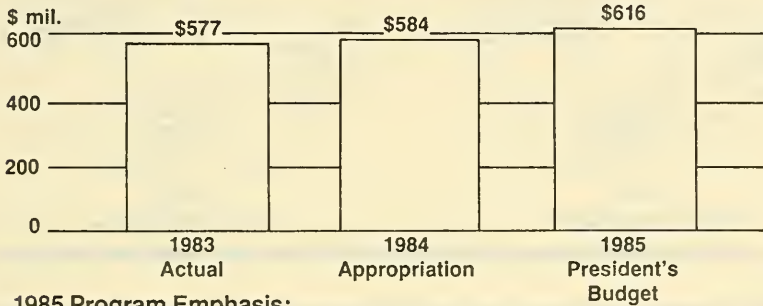
Permanent, Trust Funds and Other

- Overall funding is 5 percent above 1984.
- Work Force is 13 percent lower than 1984.
- Timber Salvage sale funding is 26 percent higher than 1984.
- Tongass Timber Supply funding is 6 percent higher than 1984:
- Allows for 460 million BF of sales.

- Payments to States is 30 percent higher than 1984:
- Assumes proposed legislation that would base payments on a tax equivalency basis.
- KV reforestation and TSI is 2 percent above 1984.

Forest Service

Permanent, Trust Funds and Other

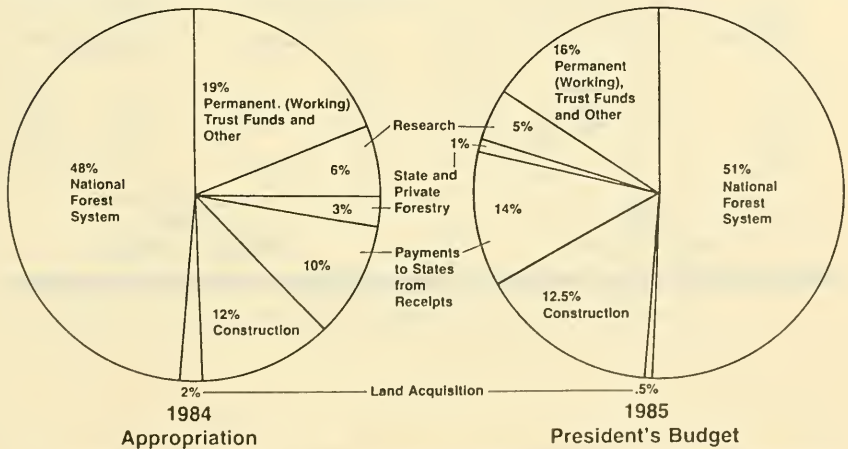


1985 Program Emphasis:

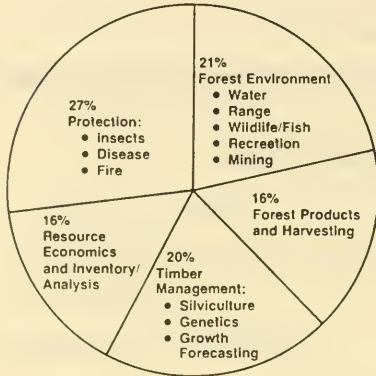
- Timber Salvage Sales
- Tongass Timber Supply Fund
- Payments to States from Receipts
- KV Reforestation and Timber Stand Improvement

Forest Service

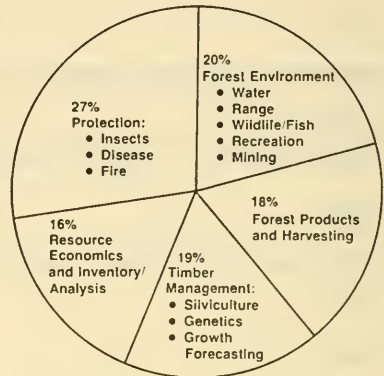
Distribution of Budgets



Forest Service Research Program

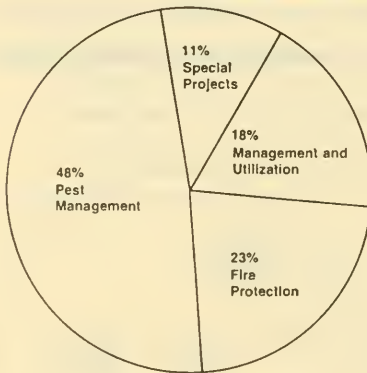


1984
Appropriations

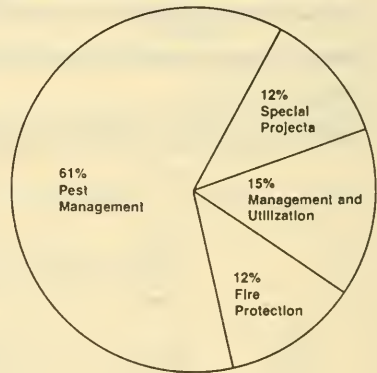


1985
President's Budget

Forest Service State and Private Forestry



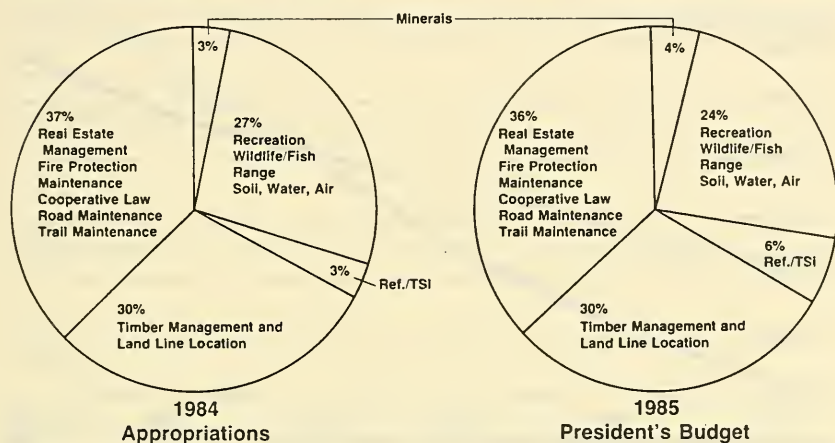
1984
Appropriations



1985
President's Budget

Forest Service

National Forest System (Excluding GA)



Uncut timber volume under contract by Region--fiscal years 1979-83

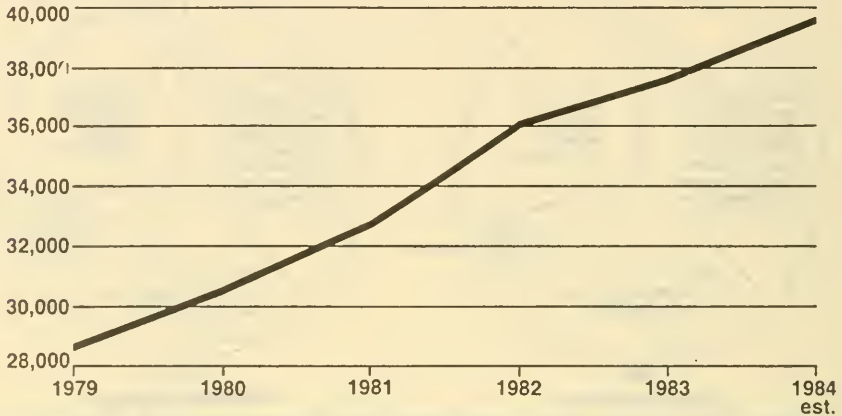
Region	1984 ^{2/}	1983	1982	1981	1980	1979
Million board feet ^{1/}						
Northern	4,017	3,845	3,634	3,325	3,194	2,952
Rocky Mountain	1,230	1,130	1,157	1,057	1,034	885
Southwestern	1,400	1,320	1,150	995	846	842
Intermountain	924	949	890	750	942	913
Pacific Southwest	7,428	7,278	6,563	5,884	5,835	5,150
Pacific Northwest	19,115	18,695	18,125	16,295	14,446	13,943
Southern	2,436	2,296	2,296	1,988	1,910	1,926
Eastern	1,902	1,802	1,917	1,937	1,945	1,830
Alaska	541	456	365	440	344	251
Total	38,993	37,771	36,097	32,671	30,496	28,692

^{1/} Volume in local scale. Long-term sales not included. Long-term sales volume under contract in fiscal year 1983 was 7,402 million board feet.

^{2/} Projected. Contract extensions and default may change final volumes.

Forest Service Uncut Timber Volume Under Contract

Million board feet



Staff Year Trend 1980-1985

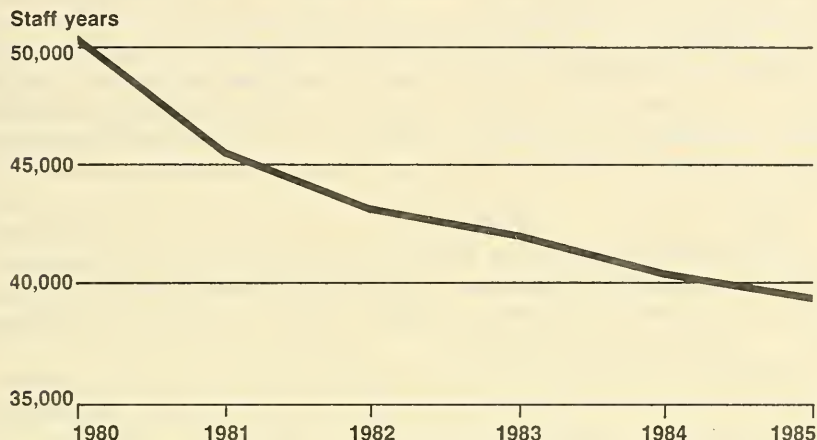
- Staff years 1980-1985 21% decrease

1980	-	50,228
1981	-	45,424
1982	-	42,984
1983	-	41,850
1984	-	40,250
1985	-	39,500

- Budget 1980-1985 Relatively Stable-Actual dollars

1980	-	\$2.1 billion
1981	-	\$2.0 billion
1982	-	\$2.0 billion
1983	-	\$2.1 billion
1984	-	\$2.0 billion
1985	-	\$2.0 billion

Forest Service Staff Year Trend 1980-1985



INTRODUCTION OF ASSOCIATES

Senator McCLURE. Do you want to introduce those who are at the table with you, or others, who may be present?

Mr. CROWELL. Yes; at my immediate right, of course, is the Chief of the Forest Service, Max Peterson; on my left is Associate Chief Dale Robertson; and to Mr. Peterson's right is Deputy Chief Lamar Beasley. Right behind us are a number of the other deputy chiefs and division managers.

Senator McCLURE. Just in case people—

Mr. CROWELL. Yes; who we may have to call upon if your questions get extremely detailed.

Senator McCLURE. Very good. Thank you very much.

FOREST RESEARCH

The budget request for Forest Research is for \$103,070,000, a decrease of \$5.5 million for a 5-percent reduction from 1984 appropriations to date. Considering the pay increase likely to be provided in the fiscal year 1984 supplemental bill for Forest Service research, the reduction will be almost \$6 million. The budget proposes to close two research stations, one at Sewanee, TN, and another at Columbia, MO, and to close eight other research work units scattered through the Forest Service research system.

Both your testimony, Mr. Secretary, and Mr. Peterson's testimony state that the budget reductions improve efficiency. What's the long-term outlook for further proposed budget reductions in the Research Program?

Mr. CROWELL. Mr. Chairman, I can't predict with any certainty what the long-term outlook would be, but I would assume that the attempt to reduce the Forest Service research budget to about \$100 million annually, which was first put forward about 1982, was about the maximum cut that I would support.

Consequently, I would say that if the budget, as presented by the President to the Congress this year on research were enacted, we would not be anticipating any further significant cuts in research in the future. That, of course, has to depend on the state of the budget deficits and other priorities, so it is something we really cannot commit to, very far in advance.

Senator McCLURE. I understand that. I guess you and I, and others, are all worried about what is the minimum critical mass. If you go too low, do you have the minimum requirements covered? While \$100 million doesn't seem out of reason, that is a little lower than we are today even.

But, then, we have to look at new research needs, and every new research need is a substitution for an old one. And we have got biotechnology regarding tree growth and other research, such as reducing the inventory cycle for southern forest lands and reducing insect and disease loss, or increasing the information base for acid rain.

We just had hearings in the Energy and Natural Resource Committee yesterday of why we suddenly experienced decreased tree growth in eastern forests over the last two decades. I just wonder if we can conclude that. One hundred million dollars is enough, if that is the target and that we will be comfortable with it in 1984 and 1985 and 1986?

Mr. CROWELL. Well, again, you are kind of pointing the other way, as to why even the administration might be persuaded that the \$100 million ought to be increased in the future. We are, as you know, emphasizing to a greater extent than ever before, research on causes and effects of acid precipitation on forest lands.

I have to say that this was largely my initiative. When I came into office, I felt we ought to be examining research needs and priorities, perhaps more closely than we had done before, with some economical analysis applied to that process. And, so, the Forest Service was responsive to my request and did demonstrate the ways in which the research budget could be reduced, while still assigning adequate priority to projects that we thought were important.

One of the things that I felt was happening in the research area was that we were getting a bit ahead of the actual potential application of some of our research. In other words, we were doing research on things like hardwood regeneration, which would undoubtedly have some application and payoff in the long-term future, but I felt that because of the condition of the hardwoods in the national forests and in the East generally, where we have a surplus of hardwood, that some of that work could be deferred.

That's the kind of thinking that was applied to deciding that we ought to look for a 10-percent reduction in the Forest Service research budget.

Senator McCLURE. Certainly I am aware that we could waste research dollars and simply continue research activities beyond any reasonable expectation that they are going to produce something.

Mr. CROWELL. I am not implying that I thought there was any waste, particularly. I thought there might be a little bit better application, a little deferment of some of this expenditure, particularly in times when we have the budget deficits that we do. Some of these things could be deferred, in other words.

Senator McCLURE. Sure. But many natural resource items are deferred at times of budgetary stress and, yet, I think we are all agreed that one of the greatest needs in natural resource management is long-term stability.

Mr. CROWELL. I certainly would agree with that, but I would think the approximate level of \$100 million a year for Forest Service research would provide that sort of stability without really threatening the well-being of the forestry community, or of environmental concerns.

Senator McCLURE. Let me ask two or three specific area questions in research.

INSECT AND DISEASE RESEARCH

You are proposing to reduce insect and disease research by 8 percent, to \$1,733,000. These reductions include \$640,000 related to gypsy moths; \$221,000 for spruce budworm; and \$275,000 for southern pine beetles. Last year the committee added \$1,400,000 to increase gypsy moth research programs. It had been our intent to fund gypsy moth research at a level of about \$2.8 million for several years, hoping to develop a way to save literally millions of dollars of losses in the Nation's timber resources and millions of dollars of funds that would otherwise be appropriated for insect and disease suppressions.

Don't these investments in research represent our best investment opportunity to control some of these costs?

Mr. CROWELL. I am afraid I will defer that question, because I, frankly, have not gotten into the details of how the Forest Service and the research staff assigned the priorities that they have.

Mr. PETERSON. Mr. Chairman, we attempted, as Secretary Crowell has indicated, to look at some prioritizing of the research that was going to remain. We put some additional money into acid rain research, as has already been indicated. We also felt it necessary to put some additional money into old growth related wildlife habitat research. That is a major question, as you know, in Idaho, Oregon, and Washington.

So, without good answers to those kinds of questions, we felt that we would have difficulty carrying out the program. That meant that we had to look at the insect and disease control field and the areas where we had some answers that are operable. For example, we had some answers to the gypsy moth, if not the best. They rely conservatively on chemical means. But we simply had to make some priority decisions within the available funds, to give emphasis to areas that we felt really needed research, and others we could defer.

Senator McCLURE. That gets pretty much back to where we were before: Is \$100 million enough? How do we add something else?

Mr. PETERSON. That's right. You have to take it from somewhere.

Senator McCLURE. And then you have to subtract something.

Mr. PETERSON. And the closures, I might point out, like Sewanee and Columbia—again, if you try to keep the locations open with a fixed cost, you have to further reduce the financing for science.

Dr. Buckman can go through insect by insect if you want. But that is the general way we got there.

DUTCH ELM DISEASE RESEARCH

Senator McCLURE. Let me ask questions in a couple of areas. What is the funding level included for Dutch elm disease research?

Mr. CROWELL. I will ask Dr. Buckman.

Dr. BUCKMAN. I will get that information.

Mr. PETERSON. We will get that for you in a moment.

Senator McCLURE. All right. While he is looking for that, I wonder if you could also give me an estimate of what the potential for reducing Dutch elm losses from application of known research findings?

Dr. BUCKMAN. Mr. Chairman, our work in Dutch elm disease is phasing down because we have made some progress. I would estimate that today our efforts are in the neighborhood of \$100,000. Now, with a strategy of urban detection and prompt sanitation, cutting of diseased trees, and injection of chemicals in a few isolated cases, we can keep the loss from Dutch elm disease down to the neighborhood of 1 to 2 percent of the trees each year.

Senator McCLURE. But that requires the expenditure of money in an applications program, does it not?

Dr. BUCKMAN. Yes; it does Mr. Chairman.

Senator McCLURE. Is that application covered in the Research Program, or does that show up elsewhere in the budget?

Dr. BUCKMAN. It shows up elsewhere in the budget.

Mr. PETERSON. It shows up in our State and private programs. In essence, though, we are not providing anything except technical assistance for Dutch elm disease.

Senator McCLURE. So, even though you have got research results which you believe, if applied, would have measurable results, you don't have the money and the budget to make the application.

Mr. PETERSON. Not for the application, no, sir.

Senator McCLURE. What is the potential savings to be achieved from further Dutch elm disease research? Do you think you have gone as far as you can go outside of application?

Dr. BUCKMAN. Mr. Chairman, we need a whole new set of breakthroughs to make the next generation of progress in Dutch elm disease.

Senator McCLURE. What are the total losses on an annual basis due to Dutch elm disease?

Mr. PETERSON. We made an analysis 3 or 4 years ago, and it ends up being like hundreds of trees, primarily in cities. St. Paul and Minne-

apolis, MN, for example, were losing about 5 percent of their trees per year. They have reduced that now to something like 1 percent of the trees per year.

Senator McCLURE. Obviously, the question is, what do we get for how much we spend, and if we don't spend, how much do we lose?

Mr. PETERSON. I think your earlier comment about biotechnology, that might very well be the next answer for something like Dutch elm disease.

Senator McCLURE. But we will never know until we put the money in for research, will we?

Mr. PETERSON. We have some answers now.

FOREST PESTS AND DISEASES

Senator McCLURE. What pest or disease constitutes the greatest dollar threats to forest resources?

Mr. PETERSON. The southern pine beetle in some years. The mountain pine beetle in the West right now is probably the single largest cause of loss. In some years, we can get substantial loss from budworms and from tussock moths. Right now, in the particular year we are in, it is mountain pine beetle, spruce bark beetle, gypsy moth, the spruce budworm, and the southern pine beetle.

Senator McCLURE. Is there a need to concentrate the bulk of our \$20 million in insect disease research funds on those particular threats, rather than scatter our funds more widely?

Mr. PETERSON. We did that a few years ago, in what we called the Three Big Bug Program. This was an attempt to concentrate research, and as a result, we have markedly reduced the damage due to the southern pine beetle. The program included a stand risk assessment, so we can look at stands and say, these stands are high risk to having an epidemic, and we can take timely action. We have just recently applied that same idea to mountain pine beetle—development risk assessment.

Mr. CROWELL. Mr. Chairman, if I might add to that.

Senator McCLURE. Certainly.

Mr. CROWELL. This is an area where I, too, have tried to provide some input to the Forest Service about assigning priorities to management of insect problems. It is my view that, as long as we have limited funds to apply to insect control, that we ought to be assigning the very top priority to treatment on national forest lands which are intermingled with private lands, so that we prevent the spread of insects that might originate on our lands, to private lands and, thereby, cause damage.

A second priority, I think, is to apply moneys that are available to control of outbreaks on the national forest lands, and, then third, if there is sufficient money available, we can think about assisting States to provide control measures on private lands within their States.

And that is the hierarchical order that I have encouraged the Forest Service to adopt in assigning the limited funds that are always available for insect control.

Senator McCLURE. Well, we will certainly probably never have as much money to do whatever one would like to do, but we do have to have some priorities. I am a little concerned about the way in which we set priorities, or indeed, whether we are making dollar judgments about deferring expenditures that would take a lot of money.

For instance, an infestation of pine beetles in one forest may well wipe that forest out and you can get that result in the short run, while we are responding to budgetary pressures, and, yet, have a long-range major impact on a forestry resource in a given area.

Mr. CROWELL. Most of the reduction that would occur in this funding for insect control would be in the State and private program on a lower priority, at least in my ranking of them. It would be in providing the funds to assist States with private land or owner control, and I have felt that that is a less appropriate expenditure of Federal funds than to spend those same funds on Federal lands which can eventually generate some return to the Federal Treasury.

Senator McCLURE. I understand that. We are also running into some problems in chemical applications.

Mr. CROWELL. That has complicated things in recent years, yes.

Senator McCLURE. We have some very heavy infestations in some specific areas and, yet, we can't treat those areas.

I could give you an example of one on the forest just south of McCall, ID, where the moths were so thick last summer it was a hazard to driving. A very small, but very intense infestation. It would appear that chemical application might have been worthwhile.

Mr. PETERSON. Mr. Chairman, we have developed some very promising biological controls now. The bacillus thuringensis, that was developed by the Forest Service research, is able to persist in the forest and has shown considerable promise. And this illustrates that, if we can successfully use those new biological techniques, we can also reduce the cost. The cost of that technology started out being about five or six times as expensive as chemical control and now it is almost as cheap.

Mr. CROWELL. I might add, Mr. Chairman, you may be interested in an observation that I had the opportunity to make on one of the national forests in east Texas about a year and a half ago, where I was taken out to a site which had been identified from aerial observation just a couple of weeks earlier, or less, as a place where there was a southern bark beetle outbreak. By the time I was there the trees had already been marked for sanitation harvest and the contractor was under contract to move in. I was there on a Friday and he was going to start the following Monday. Moving into the infested area that quickly, of course, would promise the expectation of controlling the outbreak immediately.

Later that day, or the next day, I saw another site where that kind of control had been applied quite successfully, and it had been a 2 or 3 acre clear cut, but the outbreak had been eliminated as a result of that.

We also have changed our rules and procedures in a way that will permit a quick response, the same way we go after fires. This has some

promise of being able to stretch our dollars and to accomplish control of outbreaks which could otherwise be very damaging.

Now, one of the disadvantages that you can encounter in western forests, is there may not be roads near the areas where the outbreaks occur, and then you can't have that prompt suppression action.

Senator McCLURE. I have some further questions I will submit for the record in that regard.

FOREST INVENTORY AND ANALYSIS

Let me shift for a moment to forest inventory and analysis. We received a lot of inquiries this year concerning your proposal to reduce funding for forest inventory and analysis research by \$730,000. That is down 6 percent. The likely impact of this reduction would be to stretch out the forest land inventories from 8 to 10 years or from 11 to 13 years of even longer.

What degree of accuracy is lost when reinventories are done on a 13-year cycle rather than a 10- or 11-year cycle?

Mr. PETERSON. Let me give you a preliminary answer, that Dr. Buckman will supplement.

When you go to a longer cycle, the conditions in that State can change considerably during that longer cycle, particularly in an area like the South where you have got a lot of harvest going on, as well as a lot of growth. We have attempted to keep the cycle shorter in the South than we have in the West for that reason. The West, is mostly national forest, and because of land management plans we have better data in terms of harvest, and so on.

Senator McCLURE. There is a vote on the floor and I will have to recess the committee temporarily. Please excuse me.

[A brief recess was taken.]

RESEARCH AND STATE AND PRIVATE FORESTRY BUDGETS

Senator COCHRAN [presiding]. Return to order. In the absence of the chairman, I have his permission to proceed with the continuation of the hearing. I apologize for not being here during the entire questioning period. I understand statements have been submitted for the record and we will carefully review those as part of the decisionmaking process on the funding levels for the programs touched on in your testimony.

Let me say, first of all, that I am somewhat concerned with the review of the budget request as it relates to State and private forestry programs. Each year I have expressed my concern about the lack of support for programs that, to me, are very important and are very important to the South and Southeast, particularly when you consider that this region of the country is going to be counted on in the future for more, and more, and more, of the forestry and wood product supplies for our Nation.

And, when you look at the fact that in this budget request these programs are reduced from \$60 million in fiscal year 1984 to \$25.5 million in fiscal year 1985, the forestry research in this budget proposal is re-

duced from \$108.5 million to \$103 million in fiscal year 1985, I am afraid the budget is really ignoring the importance of the forestry in the East and the South, and is threatening the partnership relationship that has existed between and among State foresters, land grant universities, and the forest industry.

Let me ask this. What was the level of funding requested by the Forest Service for the Research Program for fiscal year 1985? Can you tell us that? And what was the level of funding requested for the State and private programs?

Mr. PETERSON. The research budget request was \$115,087,000. State and private forestry request by the agency was \$67,562,000.

Senator COCHRAN. I wonder whether this budget request for research is considered adequate to allow the region to meet its major responsibilities of supplying wood and wood products to the Nation. And the State and private forestry budget, whether it is adequate to allow the South to meet its forestry responsibilities to the Nation? What is your opinion on that Mr. Crowell?

Mr. CROWELL. Mr. Chairman, I would answer it two ways.

First of all, with respect to the research budget, the reductions in the research budget from the funds that were appropriated in 1984 were about 5 percent, as I already explained in response to some questions by Senator McClure. These were the result of forcing some assignment of priorities for needed research. That assignment of priorities does not come down particularly in favor, or against, one geographic region of the country or another.

Now, that is not true of the reductions in the State and private, I know, because the State and private reductions tend to affect the portions of the country that are less heavily committed to national forest system lands as a total of the forest region in those areas. The plain and simple driving force for the reduction in the State and Private Forestry Program is in need to deal with the budget deficit.

We feel that—the administration feels that much of the funding—virtually all of the funding that goes to those programs is basically to benefit private landowners. And we believe that the demand of which you spoke for the future for wood needs, will make quite appropriate and will provide the incentive for investments in protection on private land, wherever it may be—forested land, wherever it may be.

The funds that are being cut are largely funds that would be expended for protection from insects, from forest pests, and from fires. There is also some reduction in the forest management and utilization practices, but it is not as though the Federal Government has withdrawn entirely from encouragement of good economic practices on private forest lands, because in the last few years there have been some incentive provided in the form of tax credits and tax writeoffs for forestry investment purposes.

We think that on balance, that what we have proposed, given the fiscal situation of the Government today, that this makes sense and that private landowners ought to begin to gear up to bear some of the expense in connection with managing their forest lands.

Senator COCHRAN. In connection with the forestry research budget, where are you going to make these reductions? Where will the reductions be felt to achieve the budget cuts that are being proposed?

Mr. CROWELL. Well, maybe I had better ask the Chief or Dr. Buckman to answer that. But, they have been made in a number of areas pretty much across the board in various types of research that the Forest Service conducts.

Dr. BUCKMAN. Mr. Chairman, we outlined a series of criteria against which we would judge our various programs. We asked our principal research administrators to weigh their programs against such criteria as: Is the research timely? Is it likely to have a high payoff? Are there anticipated vacancies that we could capitalize on? Can the research be postponed? Can it be drawn to a close? And we applied those criteria against essentially our entire portfolio of research studies, and consequently, the reductions that are contained in that budget are distributed fairly among programs and across the country.

Senator COCHRAN. What is the impact on research personnel, if you can tell us?

Dr. BUCKMAN. We anticipate that the fiscal 1985 budget will cause a further reduction, perhaps 100 to 150 people.

Senator COCHRAN. What about the impact that it might have on cooperative programs with State universities and colleges?

Dr. BUCKMAN. We have about 10 percent of our research budget in cooperative programs with State universities. There will be some reduction in that program.

Senator COCHRAN. And can you tell us what the reductions will be? What will be the nature of the reductions?

Dr. BUCKMAN. My guess is that it will be 3 to 4 percent. In other words, from 10 percent down to about 6, perhaps 5 percent.

Senator COCHRAN. What will be the practical consequence of those reductions on the colleges and universities or on the cooperation—the programs that are being engaged in?

Dr. BUCKMAN. It will impact on graduate students. Much of our extramural research is done under the guidance of senior faculty members but supports graduate students. It will impact the nature of some of the cooperative—specific cooperative and technical subjects that we deal with. Now, our aim in our cooperative research is to obtain skills that we do not have in the organization, work that isn't career long, a short term, or highly specialized job. That is what we use our cooperative programs for.

Senator COCHRAN. Do you have any specific plans to help achieve these reductions by affecting research operations in Mississippi? There are four facilities—four locations in my State where research operations are conducted. Those are at Gulfport, Oxford, Starkville, and Stoneville.

What are your plans with respect to the research activities of those locations?

Dr. BUCKMAN. Mr. Chairman, I am familiar with those four locations, and as I recall, there is a \$75,000 reduction in forest and genetics at

Gulfport; there is a \$50,000 reduction, as I recall, in watershed management work at Oxford; and no reduction at Stoneville; and there is a \$125,000 reduction in forest inventory work proposed for Starkville.

Senator COCHRAN. Nonindustrial private forest lands represent, as you know, over 75 percent of the South's commercial forest acreage and produced over 60 percent of the timber harvested. I understand, through the application of improved forestry practices, this production can be doubled. How are we going to achieve these increases with the proposed reductions in forestry assistance to nonindustrial private landowners? Do we have the forestry research to meet these needs?

Mr. CROWELL. I think the way we are going to achieve those increases in production is to market demand and price of products, Mr. Chairman. That will provide the incentive for management. We have seen that taking place—beginning to take place. One of the reasons that the southern forest industry has gone through a renaissance in the last 20 years has been because of two things: One has been a regrowth of softwood timber forest there, and the second reason, is the increase in demand for products. As a result, we have seen tremendous investments made in the South in processing facilities and also in investments made on the forest lands themselves.

Now, those investments have tended to be larger percentagewise, perhaps on industrial-owned lands than on nonindustrial lands, but we have also done some studies recently which have shown that larger nonindustrial landowners are very interested in, and are taking steps to assure, returns on the investment represented by their timberlands. And we see real signs, really encouraging signs, that the market does provide the incentives for informed landowners to make investments on their own.

Senator COCHRAN. How much of the fiscal year 1985 budget for State and private forestry is directed to forestry assistance on nonindustrial private forest lands?

Mr. CROWELL. I will ask Deputy Chief John Ohman to respond because he has those figures available.

Senator COCHRAN. Mr. Ohman.

Mr. OHMAN. The total amount is about \$10.6 million which will go for technical assistance for State forestry agencies. About 42 percent of the total of \$25.5 million. The balance then is for forest pest management on Federal lands.

Senator COCHRAN. How does that figure compare with current year levels? Is that a reduction or an increase?

Mr. OHMAN. Oh, yes, a very considerable reduction. I would say, just as an estimate, around \$40 to \$45 million is going toward—or higher than that even—maybe \$55 million.

Senator COCHRAN. So we are looking at a decrease of from \$40 something million to \$10.6 million?

Mr. OHMAN. It is down to \$10.6 million, yes.

Mr. CROWELL. Most of that reduction, though, Mr. Chairman, would be forest pest management and fire protection funding. Much less of it would be reduction for forest management and utilization.

Mr. PETERSON. The relative figure is that \$10.7 billion is going into forest management utilization in 1984; \$3.9 million in 1985; \$14 million in fire protection in 1984; \$3.1 million in 1985; in forest pest management \$29.1 million, which includes Federal lands, down to \$15.6 million which will be technical assistance only for the private lands. There is no cost sharing of funds in the 1985 budget for nonindustrial private lands.

Senator COCHRAN. And in the Agriculture appropriations bill where we are providing funding for the Forestry Incentives Program, there was no request for funding of that either, as I recall?

Mr. PETERSON. That is correct. I should say, with a single exception, there is no money going to States. There is \$3 million going to the State of Minnesota which was provided as part of the offset to establish the Boundary Waters Canoe Wilderness Area. Other than that, there is no cost-sharing proposal for the States. It is technical assistance.

Senator COCHRAN. I remember we had a continuing disagreement over the efficacy of the Forestry Incentives Program and the encouragement that that provides in a very concrete way to many landowners to improve their timberlands and put lands that are either in cultivation, or pastureland, into forestry uses.

We had some hearings down in Mississippi, in Jones County, which I chaired, looking into some problems that we have in my State, in that area. And uniformly, the witnesses told me that the Forestry Incentives Program, the cost-sharing programs, are very valuable and provide a great deal of assistance and encouragement to improve management of forestry and timberlands. I don't suppose you will change your mind about that.

Mr. CROWELL. Well, we certainly recognize that, if a landowner is provided some free Government funds, that it is going to—he is going to do some work on his land that he wouldn't necessarily with his own funds. But there comes a time when that kind of action could be paid for out of the returns from the land itself. And we believe that the time has arrived where that is taking place and that kind of funding is no longer needed to assure that good forestry investments will be made on a great many acres in private ownership, not just in the South but around the country elsewhere, as well.

Senator COCHRAN. The Office of Technology Assessment, as you probably know, completed a study requested by Senator Mark Hatfield and myself—a study of wood use—the competitiveness of our industry and technology in the industry. One of the recommendations by the Office of Technology Assessment was that there be established two or three national research centers of excellence aimed at improving the utilization of wood and wood materials. Is this concept a good one in your judgment and how would forestry service research be coordinated with research at these centers?

Mr. CROWELL. I don't recall the proposal for how those centers were to be funded, but I am sure you are aware, Senator, that the Forest Products Laboratory at Madison, WI, does a fine job currently of research, as is done in some other places, as well—other research locations, as well, around the country—on improved utilization.

This involves research with respect to utilization, both in the saw mills and plywood plants, but also in the woods itself, looking toward getting more material out after harvesting and putting it to economical use. I would say that any kind of research of that sort is likely to be beneficial and could have some good payoffs.

The question that one always has to face in thinking about funding research is, the kind of prioritizing that Dr. Buckman referred to a little while ago in response to one of your earlier questions about the likely payoff, the current need for results that are likely to be achieved and the personnel that are available to accomplish it. Those kinds of considerations.

Senator COCHRAN. Do you feel that water utilization research has an important role to play in our efforts to help encourage wise utilization of timberland resources?

Mr. CROWELL. I certainly do. I am not sure that you and I would necessarily agree on how much of it should be subsidized by the Federal Government.

Senator COCHRAN. There is no doubt the private sector has an important role to play. Industry has a very important role.

Mr. CROWELL. Industry has done a great deal in the way of making breakthroughs in the last 20 years, that I am familiar with, where thin saws have been a technology which has been developed; computer applications for best opening face on logs, that kind of thing. And there are other examples, I am sure, that Dr. Buckman could provide which have been done in conjunction sometimes with the Forest Products Laboratory, and sometimes entirely by the Forest Products Lab, and other times entirely in the private sector.

These things tend to go forward together. There are many ideas which have been around for a long time about how greater utilization could be accomplished. It always comes down, however, to the question of cost versus improved recovery and that, in turn, is a function of the markets. When markets are good, you can afford to do a better job of utilization than when markets are poor.

Senator COCHRAN. Thank you very much.

Senator McCLURE. Thank you very much. I appreciate your continuing interest and concern about these questions.

We do have a vote on the floor and it will be necessary to attend to that business.

Senator Stennis has asked me specifically to convey his regrets for not being here, and he went on in his notes to say:

I am, of course, very interested in the Forest Service budget and programs. However, I am tied up in meetings in the Capitol regarding the budget deficit reduction proposal. I was looking forward to the testimony from the officials of the Department of Agriculture and the Forest Service. I have questions but I will take them up with the Forest Service at a later time.

I think in view of the problems we are having this afternoon, the best that we could probably do would be to reschedule the balance of the hearing for a later date, when we have perhaps an uninterrupted time to get into some of the rest of the questions. And we will consult with you about that time, if we may do so.

Mr. CROWELL. All right. Whatever you wish. Mr. Chairman. We are perfectly willing to sit here, though, if you want to go over and come back.

Senator McCLURE. Well, if I understand what is happening on the floor—and I often time do not—we will use your time better by re-scheduling it.

Mr. CROWELL. All right, we will be available when you wish.

SUBCOMMITTEE RECESS

Senator McCLURE. Thank you very much. We will recess until 10 a.m., Thursday morning.

[Whereupon at 3:05 p.m., Tuesday, May 1, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 3.]

**DEPARTMENT OF THE INTERIOR AND RELATED
AGENCIES APPROPRIATIONS FOR FISCAL YEAR
1985**

THURSDAY, MAY 3, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD-138, Dirksen Senate Office Building, Hon. James A. McClure (chairman) presiding.
Present: Senators McClure, Weicker, and Johnston.

DEPARTMENT OF THE INTERIOR
TERRITORIAL AND INTERNATIONAL AFFAIRS
TERRITORIAL WITNESSES

STATEMENTS OF:

HON. ANTONIO B. WON PAT, DELEGATE IN THE HOUSE OF REPRESENTATIVES FROM THE TERRITORY OF GUAM
HON. FOFO I.F. SUNIA, DELEGATE IN THE HOUSE OF REPRESENTATIVES FROM THE TERRITORY OF AMERICAN SAMOA
HON. RON DE LUGO, DELEGATE IN THE HOUSE OF REPRESENTATIVES FROM THE TERRITORY OF THE VIRGIN ISLANDS

OPENING STATEMENT

Senator McCLURE. Good morning. This is the time scheduled to review the fiscal year 1985 budget request for the Office of Territorial and International Affairs.

For the administration of territories account, OTIA has requested \$53,829,000, a decrease of \$25,433,000 from the fiscal year 1984 appropriated level; and for the Trust Territory of the Pacific Islands account, OTIA has requested \$96,132,000, a decrease of \$15,977,000 from the fiscal year 1984 appropriated level.

We will begin this morning by taking brief testimony from our territory delegates, Congressman Antonio B. Won Pat, Congressman Ron de Lugo, and Congressman Fofu I.F. Sunia.

Following the Congressmen, we will then review the 1985 budget request and other ongoing territorial matters with the Assistant Secretary for Territorial and International Affairs, Mr. Richard Montoya.

Beginning at 2 p.m., this afternoon, we will reconvene this hearing and take testimony from each of the territory and trust territory governments, starting with Guam and then proceeding with American Samoa, the Commonwealth of the Northern Marianas, the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

As always, it is my pleasure to welcome my three colleagues who represent Guam, the Virgin Islands, and American Samoa in the House of Representatives.

Gentlemen, will you please be seated at the table, and we will then proceed.

PREPARED STATEMENTS

Your full statements will, of course, be made part of the record at this point, and because we have a very full day and much to cover, I would ask you to highlight your full statement as you see fit.

We will start out with Congressman Won Pat.

[The statements follow:]

STATEMENT OF HON. ANTONIO B. WON PAT

Thank you for the opportunity to testify as chair of the House subcommittee with responsibility for the territories and representative of Guam.

I would like to make a brief oral statement and submit other material.

My subcommittee carefully reviewed the President's 1985 budget requests for the territories. It found the budget seriously and sadly lacking.

This is the first budget within memory that would provide almost no discretionary, developmental assistance for the territories. Indeed, it proposes to reduce the current level of such assistance from \$28.9 million to a mere \$1.6 million.

Virtually zeroing out this assistance to our strategic insular borders would not be conservative spending. It would be a reckless abdication of this nation's responsibility to its

Thus, my subcommittee - and later the full House Interior and Insular Affairs Committee - agreed on a bipartisan basis to recommend appropriations for territorial needs we consider imperative.

In making these recommendations, we rejected the administration's contention that the territories should...or even could...fund these needs themselves. The still uncorrected, disproportionately-harsh impacts of the administration's program and budget cuts are one of the major reasons that they are unable. Another is the territories' lack of economic development, a need recognized by the administration but all but ignored in its budget.

As Chair of the House Insular Affairs Subcommittee, I support your favorable consideration of the requests territorial leaders will outline today. And my committee's unanimous recommendations on them are contained in the report I ask be made a part of the record. I would like to highlight only two of these which concern Guam.

By any standard of reasonableness, making essential renovations to the Guam Memorial Hospital is a priority. The loss of accreditation is largely due to structural deficiencies. It has jeopardized Medicaid and Medicare. The administration's own health experts have endorsed the improvements plan and recommended appropriations for it.

Persistent violence only emphasizes that completion of the Guam Penitentiary is critical, as you recognized in the 1980 appropriation. However, design changes, and inflation have resulted in the need for further federal assistance - as recognized in P.L. 98-213, enacted late last year.

In closing let me thank you once again for your consistent sensitivity to territorial America. I hope you know how much good it does.

Thank you.

STATEMENT OF FOFO I.F. SUNIA

THANK YOU VERY MUCH FOR THE OPPORTUNITY GRANTED ME TO GIVE TESTIMONY ON THE 1985 REQUESTS OF THE GOVERNMENT OF AMERICAN SAMOA. IT IS ALWAYS A PLEASURE TO SIT BEFORE YOU, FOR I KNOW OF YOUR CONCERN FOR THE WELFARE OF OUR PEOPLE, AND OUR PROBLEMS ARE WELL KNOWN TO YOU. AS AMERICAN SAMOA'S REPRESENTATIVE TO THIS CONGRESS, MAY I OFFER YOU MY GRATITUDE FOR PAST ASSISTANCE AND ASK FOR YOUR FAVORABLE CONSIDERATION OF OUR CURRENT REQUESTS.

BETWEEN OUR LAST APPEARANCE BEFORE YOU, THE GOVERNMENT AND THE PEOPLE OF AMERICAN SAMOA HAVE GONE THROUGH A VERY DIFFICULT YEAR. THOSE DIFFICULTIES WERE BROUGHT ABOUT BY A HUGE DEFICIT IN GOVERNMENT FINANCES. WITH YOUR KIND ATTENTION, THE TECHNICAL ASSISTANCE OF THE OFFICE OF TERRITORIES, AND SACRIFICES ON THE PART OF THE LOCAL PEOPLE AND GOVERNMENT, THE FINANCIAL SIDE OF OUR HOUSE IS ONCE AGAIN IN ORDER. I COMMEND THE LEADERS OF THE TERRITORY FOR HAVING THE COURAGE TO MAKE THE HARD CHOICES AND TO BEAR THE BURDEN OF IMPROVING THE SITUATION.

MR. CHAIRMAN, I AM SURE YOU WILL BE PLEASED TO KNOW THAT WE HAVE DEVELOPED THE BEST WORKING RELATIONSHIP WITH THE OFFICE OF TERRITORIES THAT I HAVE SEEN IN YEARS. YOU WILL RECALL HOW WE EVEN BROUGHT SOME OF OUR DIFFERENCES BEFORE YOU ON PAST OCCASIONS. ASSISTANT SECRETARY MONTOYA HAS BEEN VERY ATTENTIVE AND MOST PRACTICAL IN HIS APPROACH TO THE TERRITORIAL CONCERNS. HIS PEOPLE WHO VISIT THE TERRITORY ON TECHNICAL ASSISTANCE ASSIGNMENTS HAVE BEEN VERY HELPFUL. EXCEPT FOR MY DESIRE TO SEE A DEMOCRAT IN THAT POST, I BELIEVE WE HAVE IN MR. MONTOYA A REAL ADVOCATE FOR THE TERRITORIES.

MY GOVERNOR AND LEGISLATIVE LEADERS WILL DISCUSS WITH YOU THE DETAILS OF OUR REQUESTS THIS YEAR. LET ME JUST BRIEFLY POINT OUT THAT I BELIEVE A GOOD HOUSING PROGRAM IS STILL THE GREATEST UNMET NEED OF THE TERRITORY. I HAVE DISCUSSED THIS CONCERN WITH OFFICIALS AT HUD AND SECRETARY MONTOYA AND I AM DUE FOR A MEETING WITH COMMISSIONER MAURICE BARSDALE ON THAT MATTER SOON. MR. MONTOYA AND I ARE HOPEFUL ABOUT THE PROSPECTS OF SOME PROGRAM BEING DEVELOPED ESPECIALLY FOR AMERICAN SAMOA. HOWEVER, IT IS GOING TO TAKE TIME. ANY ASSISTANCE YOU MIGHT BE ABLE TO PROVIDE IN THIS AREA WOULD BE MOST APPRECIATED.

FINALLY, MR. CHAIRMAN, I WANT TO THANK YOU FOR HONORING MY REQUEST LAST YEAR THAT YOUR COMMITTEE STAFF BE SENT TO VIEW FIRST-HAND THE

SITUATION IN THE TERRITORY. BUT ABOVE THAT, AS MY PEOPLE'S REPRESENTATIVE TO THE U.S. CONGRESS, PLEASE ACCEPT MY DEEPEST AND SINCEREST APPRECIATION FOR YOUR CONTINUED ATTENTION TO OUR NEEDS.

NOW, MAY I INTRODUCE TO YOU THE LEADER OF MY PEOPLE, THE PERSON MORE RESPONSIBLE THAN ANYONE ELSE FOR THE ORDERLY DEVELOPMENT OF OUR TERRITORIAL GOVERNMENT, OUR GOVERNOR, THE HONORABLE UIFAATALI PETER COLEMAN, SENATE PRESIDENT GALEA'I POUMELE AND HOUSE SPEAKER TUANA' ITAU TUIA.

AS AMERICAN SAMOA'S REPRESENTATIVE TO CONGRESS, I HAVE ENJOYED THE OPPORTUNITY TO WORK WITH YOU. PLEASE ACCEPT MY SINCEREST APPRECIATION FOR YOUR CONTINUED ATTENTION TO OUR NEEDS.

STATEMENT OF RON DE LUIGO

I APPRECIATE YOUR INTEREST, ONCE MORE, IN THE PROJECTS FOR WHICH THE U.S. VIRGIN ISLANDS SEEK FEDERAL ASSISTANCE. THE ISLANDS HAVE COME A LONG WAY IN THE PAST SEVERAL YEARS, AND I BELIEVE THERE IS POTENTIAL FOR SIGNIFICANT ECONOMIC GROWTH IN THE NEAR FUTURE. THIS BELIEF DERIVES FROM THREE THINGS: THE COMMITMENT BY MY OFFICE AND THAT OF THE GOVERNOR TO PROMOTE A CLIMATE ATTRACTIVE TO BUSINESS; THE FOREIGN SALES CORPORATION LEGISLATION, A COMPONENT OF THE TAX BILL CURRENTLY BEFORE CONGRESS, WHICH PROMISES TO FOCUS THE ATTENTION OF A NUMBER OF U.S. INDUSTRIES ON OUR COMMUNITY; AND THE INTEREST IN THE CARIBBEAN REGION GENERATED BY THE CARIBBEAN BASIN INITIATIVE.

AS A MATTER OF FACT, I HAVE JUST RETURNED FROM A CONFERENCE, SPONSORED BY THE INTERIOR DEPARTMENT IN CONJUNCTION WITH MY OFFICE, WHICH WAS DESIGNED TO EXPLORE THE BUSINESS OPPORTUNITIES FOR THE VIRGIN ISLANDS RESULTING FROM THE NEW FOCUS ON THIS REGION. THE CONFERENCE, WHICH WAS HELD ON ST. CROIX AND ST. THOMAS, WAS AN OVERWHELMING SUCCESS. THERE WAS INTEREST, ENTHUSIASM, AND, SIGNIFICANTLY, THERE WAS CAPABILITY IN OUR AUDIENCES.

THE VIRGIN ISLANDS STILL FACES THE PROBLEMS WITH ITS INFRASTRUCTURE THAT I HAVE RAISED BEFORE THIS COMMITTEE IN THE PAST. FURTHERMORE, WE HAVE A LOT OF WORK TO DO IN TERMS OF SELLING THE RESOURCES THAT THE VIRGIN ISLANDS DO HAVE TO INVESTORS. BUT I MUST ADMIT THAT, AFTER THIS CONFERENCE, IT IS WITH A GREATER SENSE OF OPTIMISM FOR THE FUTURE OF THIS TERRITORY THAT I SIT HERE BEFORE YOU TODAY.

THE APPROPRIATIONS WHICH I SEEK ON BEHALF OF THE VIRGIN ISLANDS THIS YEAR ARE FOR ADDITIONAL TECHNICAL ASSISTANCE AND FOR AN ECONOMIC DEVELOPMENT FUND FOR ALL OF THE TERRITORIES.

I REQUEST THAT THE TECHNICAL ASSISTANCE AUTHORIZED UNDER P.L. 96-597 BE INCREASED BY 4.6 MILLION DOLLARS WITH THE INCREASE TARGETED FOR THE FOLLOWING PROJECTS: FINANCIAL PLANNING AND REVENUE COLLECTION, RESEARCH RELATED TO DEVELOPMENT OF AN EASTERN CARIBBEAN CENTER -- A PROJECT CONSISTENT WITH THIS COUNTRY'S EMPHASIS ON DEVELOPING THE NATIONS OF THE EASTERN CARIBBEAN, AND PLANNING FOR EXTENSION OF THE ST. CROIX RUNWAY. (IN THE ALTERNATIVE, PLANNING FOR THE EXTENSION OF THE ST. CROIX RUNWAY WOULD BE AUTHORIZED UNDER THE PROPOSED 1984 OMNIBUS TERRITORIES

THE TECHNICAL ASSISTANCE FOR FINANCIAL PLANNING IS NEEDED IN THE VIRGIN ISLANDS TO SOLIDIFY OUR BASIS FOR PROJECTING THE TERRITORY'S BUDGET. WE FACE INCONSISTENT BUDGET PROJECTIONS, AND DISTURBING BUDGET DEFICITS BY ANY CALCULATION. WE ARE TOO SMALL TO ALLOW THESE PROBLEMS TO PERPETUATE.

I BELIEVE YOU ARE AWARE OF THE AUDIT OF THE VIRGIN ISLANDS GOVERNMENT FEDERAL PROGRAMS OFFICE. WHILE THE TECHNICAL ASSISTANCE FOR FINANCIAL PLANNING WAS MISUSED BY THAT OFFICE ACCORDING TO THE AUDIT, THE GOVERNOR HAS REPLACED THE PERSON IN CHARGE AND TOTALLY REORGANIZED THE OFFICE. WE MUST NOW MOVE ON WITH THE JOB THAT SHOULD HAVE BEEN DONE. THE GOVERNOR HAS

INFORMED ME THAT \$1.85 MILLION WOULD ACCOMPLISH THE TASK OF REVAMPING OUR APPROACH TO THE LOCAL BUDGET.

THE V.I. BUREAU OF INTERNAL REVENUE HAS COME A LONG WAY IN TIGHTENING UP ITS COLLECTION PROCESS. THE BUREAU HAS INCREASED ITS COLLECTIONS SIGNIFICANTLY IN THE PAST FEW YEARS. THIS IS DUE IN PART TO COMPUTERIZATION. THE BUREAU NEEDS, HOWEVER, TO REPROGRAM ITS COMPUTER TO INCREASE THE WORKLOAD AND REDUCE THE TIME TAKEN TO COLLECT REVENUES. THE BUREAU NEEDS TO INCREASE ITS COMPUTERIZATION. WITHOUT THIS CAPABILITY IT WILL NEVER BE ABLE TO REACH THE TAXPAYERS WHO MANAGE TO AVOID, YEAR IN AND YEAR OUT, THEIR SHARE OF THE LOCAL TAX BURDEN, EITHER BY DELAYED PAYMENTS, OR BY FAILURE TO PAY. THE BUREAU HAS DETERMINED THAT IT WILL NEED \$150,000 IN TECHNICAL ASSISTANCE TO REPROGRAM. THE RESULTING INCREASE IN REVENUE COLLECTIONS FOR THE ISLANDS WOULD BE SIGNIFICANT.

THE CARIBBEAN BASIN INITIATIVE, PASSED BY CONGRESS LAST YEAR, OPENS THE UNITED STATES MARKET TO THE NATIONS OF THE CARIBBEAN REGION. BUT THE LEGISLATION DOES NOT ANTICIPATE THE REGION'S NEEDS IN TERMS OF EDUCATION AND TECHNICAL TRAINING. THIS GAP IS WHAT THE COLLEGE OF THE VIRGIN ISLANDS PROPOSES TO FILL FOR THE ISLAND NATIONS OF THE EASTERN CARIBBEAN.

THE COLLEGE'S EXISTING PROGRAM IS DESIGNED TO ADDRESS THE NEEDS OF SMALL CARIBBEAN ISLANDS. THE STUDY FOR WHICH CONGRESS RECENTLY APPROPRIATED \$150,000 AND WHICH EXPLORES AND DEVELOPS THE COLLEGE'S CAPABILITIES AS A LEARNING CENTER FOR THE REGION IS ALMOST COMPLETE. THE RESEARCH FUNDING REQUESTED WOULD PROVIDE FOR FURTHER ASSESSMENT OF THE NEEDS OF THESE NEIGHBORING ISLANDS, AS WELL AS DEVELOPING THE CURRICULUM WHICH SUCH AN ASSESSMENT WOULD SUGGEST. THIS RESEARCH WOULD EFFECT THE NEXT STEP IN THE DEVELOPMENT OF THE EASTERN CARIBBEAN CENTER BASED IN CONCEPT ON THE EAST-WEST CENTER IN HAWAII. ITS DESIGN WOULD WED THE

ECONOMIC OPPORTUNITIES PROMISED BY THE CARIBBEAN BASIN INITIATIVE WITH THE IDEALS AND KNOW HOW GENERATED BY AN AMERICAN INSTITUTION IN THE CARIBBEAN. THE AMOUNT REQUESTED FOR THIS RESEARCH PROJECT IS TWO MILLION DOLLARS.

TRANSPORTATION IS THE PRIMARY CONSIDERATION OF ANY INDUSTRY LOCATING IN THE VIRGIN ISLANDS, AND THIS IS PARTICULARLY TRUE OF OUR MAJOR INDUSTRY, TOURISM. WITH THIS IN MIND I HAVE FOCUSED ON THE COMPLETION OF THE ST. THOMAS AIRPORT, WITHOUT WHICH OUR ABILITY TO ATTRACT AIR SERVICE TO ST. THOMAS IS IN JEOPARDY. FURTHERMORE, IF THE VIRGIN ISLANDS IS TO TAKE FULL ADVANTAGE OF ITS TOURIST INDUSTRY, IT MUST BE COMPETITIVE IN THE WEST COAST, SOUTH AMERICAN AND EUROPEAN TOURIST MARKETS. THIS REQUIRES ACCOMMODATING THE LANDING AND DEPARTURE OF THE LARGE COMMERCIAL JETS, SUCH AS THE 727, 757, 767, DC-10 AND L10-11. THESE JETS CANNOT DEPART FROM THE VIRGIN ISLANDS LOADED FOR LONG DISTANCE FLIGHT AT PRESENT, BUT THE ST. CROIX AIRPORT COULD ACCOMMODATE THIS IF EXTENDED TO 10,000 FEET. THE RESULT WOULD BE AN ADDITIONAL 1,000 TOURISTS PER MONTH ACCORDING TO RECENT ANALYSES.

THE VIRGIN ISLANDS GOVERNMENT HAS ALREADY UPGRADED THE 7,600 FOOT RUNWAY ON ST. CROIX. THIS RUNWAY CAN HANDLE THE WEIGHT OF THE FULLY LOADED JETS; ALL WE NEED IS THE ADDITIONAL LENGTH. IN ORDER TO DO THE DESIGN FOR THIS EXTENSION, I SEEK AN APPROPRIATION OF \$600,000.

FINALLY, I JOIN MY COLLEAGUES FROM THE OTHER TERRITORIES IN REQUESTING AN APPROPRIATION OF TWO MILLION DOLLARS TO CAPITALIZE THE ECONOMIC DEVELOPMENT FUND. AUTHORITY FOR THIS FUND IS THE SUBJECT OF A PROPOSAL WHICH WILL BE INTRODUCED VERY SHORTLY, AND WHICH IS DESIGNED TO ENCOURAGE SMALL BUSINESS BY MAKING CAPITAL AND BUSINESS MANAGEMENT EXPERTISE AVAILABLE WHERE LENDING INSTITUTIONS ARE UNWILLING TO DO SO.

THE IDEA FOR THE ECONOMIC DEVELOPMENT FUND CAME FROM THE DEPARTMENT OF INTERIOR, AND IS A RESPONSE TO THE INFLEXIBILITY PRIVATE INVESTORS IN THE TERRITORIES FACE WHEN APPROACHING LOCAL LENDING INSTITUTIONS. LOANS FROM THE FUND WOULD BE MADE AVAILABLE WHERE OTHER AVENUES HAVE LEAD TO UNREASONABLE TERMS AND CONDITIONS OR NO LOANS AT ALL.

THE ACCESS TO CAPITAL ANTICIPATED BY THIS LEGISLATION IS CONSISTENT WITH MY EFFORTS TO GET THE AUTHORITY TO ISSUE INDUSTRIAL REVENUE BONDS IN THE VIRGIN ISLANDS, AND WOULD SUPPLEMENT THIS AS A MEANS OF GENERATING BUSINESS INVESTMENT.

INTRODUCTION OF THE DELEGATE FROM AMERICAN SAMOA

Mr. WON PAT. Mr. Chairman, I appreciate the honor and privilege, of course, as the senior delegate and also chairman of the House Insular Affairs Committee, but because of circumstances beyond our control I would like to ask your permission to defer to my colleague, Mr. Sunia, to speak first because he would like to get away because his wife is presently ill and is in the hospital.

So with your kind permission, I would like him to start first.

Senator McCLURE. I understand, and we are glad to be able to accommodate him, and I am sorry to hear the reason for the accommodation.

Mr. SUNIA. Thank you very much, Senator. Good morning.

The fact the senior delegate from the territories is yielding to me, I know he is only yielding time, not his seniority.

Later in the day, my Governor and the other leaders of the territory will discuss our request for this year with you, and for myself, I simply want to express my appreciation for the continued care and consideration of your committee, sir, particularly last year when the Territory of American Samoa was faced with a serious deficit.

Your committee, during supplemental hearings, came through with assistance and enabled the territory to finish off the year with a bit of a success story, as you will hear from our Governor later in the day.

I do want to say, too, that the past year we have experienced some very—perhaps I should say improved relations with the Office of Territorial Affairs. I know you will be looking at the budget this morning. I do want to say that we have found in Rick Montoya a true advocate of the territories, and, as I said in the House the other day, except for the fact that he is a Republican, he is a nice man. [Laughter.]

Senator McCLURE. It is safer to say that in the House than it is in the Senate. [Laughter.]

Mr. SUNIA. We appreciate the attention of Secretary Montoya and his people to the needs of the territory, particularly in the technical assistance area over the past several months.

Mr. Chairman, I have submitted a statement. I am glad it will be made part of the record. I do want to ask your permission to submit a supplemental statement on the issue of housing in the territory, which I consider to be the greatest need of the territory as of this date.

I know it is not the direct area of responsibility of this committee, but I do want to suggest and ask that you consider accepting that supplemental statement at this point.

Senator McCLURE. Surely. We will receive that and make it part of the record when received, and I assume that it can be done relatively soon so we will have the benefit of that statement in the record.

[The information was supplied later in conversation with the committee staff.]

ADDITIONAL QUESTIONS

Mr. SUNIA. Thank you very much, sir.

Now, there is one little minor error in my statement. I made reference to the fact the staff visited the territory last year. In fact, it was the year before.

However, if they do have a chance to come back this year, we would appreciate that.

Thank you very much.

Senator McCLURE. Thank you, Congressman.

Perhaps the best way to accommodate your schedule and also our own scheduling this morning is, if we have specific questions to ask of you, I will get back to you with a written summation for response to the record after we have heard the other witnesses.

Again, I am sorry to know the reason why. I hope everything is going well.

Mr. SUNIA. Thank you very much, sir.

Senator McCLURE. Thank you.

Congressman Won Pat.

COMMENTS FROM THE DELEGATE FROM GUAM

Mr. WON PAT. Thank you for the opportunity to appear again before your committee to testify on behalf of the Flag Territories as well as the Territory of Guam.

Now, you have been very helpful through all the years, I know, from the record to our territories.

Now, for the first time, as I remember, the administration submitted for the territorial budget for capital improvements and developmental assistance practically zero; the current level of assistance went from \$28.9 million to a mere \$1.6 million.

Now, particularly in my district, I had the opportunity to visit during the Easter recess, at which time, of course, our Chief Executive was able to honor us by visiting Guam. But I was out in the Territory of

Guam to take a look, and there are two major concerns with respect to our territory, which requires serious consideration, and that is the need for the hospital to be improved because of its building defects, structural defects, and also the need to complete the penitentiary that we have there.

Now, these amounts, of course, are not very substantial, and I feel after discussing these in our committee on a bipartisan basis we have agreed on these recommendations, so I would hope that the Senate would likewise consider that in addition to the other area.

Now, as you know, we submitted recommendations to the subcommittee, to you, which you have. So without further ado, I want to again say thank you very much for your patience to listen to us, and I hope that you will give it due consideration.

Senator McCCLURE. I know you have requested to submit other material, and we will receive that as it is submitted.

You have always been helpful in providing us with information that we do need, and we appreciate that.

Mr. WON PAT. Thank you very much, Mr. Chairman.

Senator McCCLURE. Congressman de Lugo, it is nice to have you back again. We have your full statement, as I indicated, and it will be made part of the record in full. You are invited to highlight or summarize in whatever way you desire.

COMMENTS FROM THE DELEGATE FROM THE VIRGIN ISLANDS

Mr. DE LUGO. Thank you very much, Mr. Chairman. It is nice to appear before you, as always, and particularly this morning when I can tell you that the help that you have been giving to these territories over the years, both on this committee and on the authorizing committee, is paying big dividends for the United States.

But let me begin by saying that for us in the territories we are not here throwing flowers at Rick Montoya. I am here as someone who has been in this town since 1968 and watched various administrations come and go, and it is a pleasure today to finally have a team down in the Interior Department that is responsive to the needs of the offshore areas of the United States and I think sensitive and aware of the importance of these areas to our foreign policy.

Just recently, we received in the Virgin Islands the support of the Interior Department in putting on a Caribbean Basin initiative conference, and this was a conference such as we have never had in the territory before. We had the top Federal people coming down to this U.S. territory, explaining the President's Caribbean Basin initiative, which initially the American citizens of the Virgin Islands were very skeptical about and afraid they were going to be adversely impacted by it.

When this conference was over, they saw that the President's policy was not only important for our Nation as a whole, but that it also could be very helpful to this U.S. territory.

At the same time, the Federal officials that participated in this conference left the conference convinced—in my conversations with

them—that the U.S. Virgin Islands can play a key role in this increasingly important area for the United States.

So it is a pleasure for me to sit before this committee for a change, not bringing a lot of bad news, but saying a lot is going right for the United States, and the work of your committee has just begun so far in bringing this about.

ADDITIONAL FUNDING REQUESTS FOR THE VIRGIN ISLANDS

Now, my request this morning for the Virgin Islands is very modest, certainly in comparison to what we have asked for in the past. We still do need help with our infrastructure, but most of all I think we need a lot of work in terms of selling the resources of the U.S. Virgin Islands to investors.

This is another area that the Interior Department is very sensitive to—the private sector. I think this came out in the conference.

I request that the technical assistance authorized under Public Law 96-597 be increased by \$4.6 million, with the increase targeted at the following items: First of all, financial planning and revenue collection, research related to development of an Eastern Caribbean center, a project consistent with this country's emphasis on developing the nations of the Eastern Caribbean, and planning for the extension of the St. Croix runway, and, in the alternative, planning for the extension of the St. Croix runway would be authorized under the proposed 1984 omnibus territories bill that has been introduced in the House and will meet the May 15 deadline.

The technical assistance for financial planning is needed in the Virgin Islands to solidify our basis for projecting the territory's budget. We face inconsistent budget projections and disturbing budget deficits, by any calculation, and we need to clean this up.

So basically what we are asking for is financial planning, \$1.85 million; computer programs for the Virgin Islands' Bureau of Internal Revenue, \$150,000. And I think that this will increase the collections of taxes substantially.

The College of the Virgin Islands, which is already playing a key role in the President's program in the Eastern Caribbean, \$2 million, to establish an Eastern Caribbean center, and, finally, design of the extension of the St. Croix runway.

Now, the St. Croix runway on the island of St. Croix, of course, is 7,600 feet, and it has been strengthened already. However, we need \$600,000 to do the design work to expand it to 10,000 feet so that we will be able to take jumbo jets, fully loaded, from Europe and from the west coast.

Finally, I want to join my colleagues from the other territories in requesting an appropriation of \$2 million to capitalize the economic development fund. Authority for this fund is the subject of a proposal which was introduced recently and which is designed to encourage small business by making capital and business management expertise available where the lending institutions in the territories are unwilling to do so.

Now, the idea for the economic development fund came from the Department of the Interior. I strongly support this initiative. The loans from the fund would be made available where other avenues have led to unreasonable terms and conditions or no loans at all from the institutions.

The access to capital anticipated by this legislation is consistent with my efforts to get the authority to issue industrial revenue bonds in the Virgin Islands that would supplement this as a means of generating business investment.

I would be happy to answer any questions.

Senator McCLURE. Thank you very much. I think it would perhaps again be constructive, rather than asking you specific questions now, to hear from the witnesses from the administration. Then if we have some questions we will ask them at a later time. Perhaps we may be able to pinpoint those questions better at that time.

Mr. DE LUGO. Fine. Thank you very much.

Senator McCLURE. I thank both of you for your appearance here this morning.

OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS

STATEMENT OF RICHARD T. MONTOYA, ASSISTANT SECRETARY

ACCOMPANIED BY:

DAVID H. HEGGESTAD, BUDGET OFFICER

FRANK X. SOLOMON, DIRECTOR, TECHNICAL ASSISTANCE

JANET J. McCOY, HIGH COMMISSIONER, TRUST TERRITORY OF THE
PACIFIC ISLANDS

KRISTINE MARCY, DEPUTY BUDGET DIRECTOR

OPENING REMARKS

Senator McCLURE. We now turn to the review of the Department's 1985 budget request for the administration of territories and the Trust Territory of the Pacific Islands.

Appearing on behalf of the administration will be Assistant Secretary Montoya, and this is, of course, the first appearance before the committee in your present capacity. We wish to welcome you to the committee this morning.

I also wish to again welcome, not for the first appearance but for a repeat performance, Janet McCoy, the High Commissioner of the trust territory.

Will you please come forward, Mr. Secretary and Ms. McCoy, and introduce for the record those who will be appearing with you at the witness table.

Mr. MONTOYA. Thank you, Mr. Chairman. It is a pleasure to be before you.

As you said, this is my first appearance since being confirmed, and I thank you for the vote of confidence in that process.

INTRODUCTION OF ASSOCIATES

At the table today, Mr. Chairman, is High Commissioner Janet McCoy, Frank Solomon, my Director of Technical Assistance, and Dave Heggestad, my Director of Budget.

We are pleased because we can come today with our heads high and our expectations and optimism even higher. We have set a course, Mr. Chairman, in the time that I have taken over the operations of the Office of Territorial and International Affairs, to address three issues: Government efficiency, privatization, and diversifying the economy. So we will address those at the appropriate time.

PREPARED STATEMENTS

Senator McCLURE. Thank you very much, Secretary Montoya. Your entire statement and any others will be placed in the record in full, and in order to save time we will proceed directly to the questions.

[The statements follow:]

STATEMENT OF RICHARD T. MONTOYA

Mr. Chairman and Members of the Subcommittee. I am pleased to appear before you today to discuss the Administration's program and its fiscal year 1985 budget for the territories.

The past year has brought progress throughout the United States territories and the Trust Territory. There is, however, always room for improvement. We at TIA plan to use 1984 and 1985 to institute a positive program to improve efficiency in the territorial governments and to promote development of private sectors which ultimately will help support these governments. In the United States territories, we see statistics that show government employment ranges from 31 to 39 percent of the work forces. In the Trust Territory, government employment accounts for 40 to 57 percent of the work forces. If self-sufficiency is to become a reality, attractive well-paying jobs must be made available in an invigorated private sector.

Regarding governmental efficiency, the major focus of our technical assistance program has been the development of governmental financial management and tax revenue systems. This includes installation of computers, training of local staff, and implementation of revised budgeting and accounting procedures. We will continue this portion of our program as needed, but we plan to expand the program into other governmental areas where efficiency can be improved.

Major emphasis will be placed on encouraging the examination of governmental activities to see if some of these activities would more properly be performed by the private sector. Shifting certain activities to the private sector could have a dual benefit of streamlining the governments and spurring growth in the local economies. In addition, we will continue to seek changes in or elimination of restrictive government regulations and we will encourage the use of authorized industrial development bonds for financing economic development. We have also improved our coordination efforts with other Federal agencies and are working on joint projects with HUD, Agriculture, HHS, FAA and Education.

Fiscal Year 1985 Budget Request for the Administration of Territories

Our total budget request for the Administration of Territories is \$53,829,000. This does not include an additional \$63,000,000 for the advance payment of estimated taxes collected in Guam and the Virgin Islands. It does include government operations and capital improvement funds for American Samoa; Covenant funding for government operations, construction and economic development in the Northern Mariana Islands; continued funding for the technical assistance program for the territories; and salaries and other administrative costs for the Office of Territorial and International Affairs. I will briefly summarize our budget and program for each of the territories and functional areas.

Guam

Our fiscal year 1985 budget for Guam does not include any additional capital improvement funding. In fiscal year 1984, we received an appropriation of \$11,350,000 to fund the Tumon Bay development project. This project will improve road, water, sewer and drainage facilities in the primary tourist area of Guam. Actual construction should begin late in fiscal year 1984 and be completed early in fiscal year 1986. Completion of this project will enhance Guam's ability to provide basic government services to a rapidly expanding tourist industry. Several new hotel complexes as well as additions to existing hotels are in progress or planned for the near future.

An area of particular concern in Guam is its water system. The lack of an effective distribution system is a much greater problem than the adequacy of water sources. In some instances, particularly in southern Guam, the inadequate water supply represents a threat to the physical well-being of the residents. In other areas, it is a deterrent to continued economic development. To help rectify this problem, we have, at the request of Guam, endorsed or approved reprogramming of several water-related projects during the past year. We also

are working with the government of Guam and the Department's Bureau of Reclamation to assess both short- and long-term water needs in the territory.

Finally, with respect to Guam, I would like to express my support for Governor Bordallo and his recent decisions to increase power rates and to veto an across-the-board employee pay increase. I realize how difficult it is to make these decisions and respect the Governor's continuing effort to reduce government spending and increase revenue.

American Samoa

For American Samoa, we are requesting \$20,400,000 for government operations and \$1,672,000 to complete repairs and improvements to the electric power system. The power system has been improved dramatically during the past two years. Major power outages are no longer a serious problem. Funds requested in the fiscal year 1985 budget will add heat-recovery systems to existing generators to increase operational efficiency. These improvements should resolve most of American Samoa's power problems for the next decade.

Dramatic improvements have also been made in government operations since the financial crisis of a year ago. A supplemental appropriation late in fiscal year 1983 and a favorable tax settlement with the tuna industry enabled American Samoa to end 1983 "in the black" and to maintain a positive financial position through the first half of fiscal year 1984. Credit must also be given to Governor Coleman for taking charge during the crisis last year and instituting tighter financial controls and cost-cutting measures that will have a long-lasting and positive effect on the government.

We are working closely with the Governor through our technical assistance program to improve the financial management system and to explore some important initiatives for transferring certain activities from the government to the private sector.

Virgin Islands

Our fiscal year 1985 budget does not include any funding for new capital improvement projects in the Virgin Islands. However, several projects that were funded in prior years are now underway. Site selections have been made for the two juvenile detention centers, and construction should be completed late in fiscal year 1985. We are also working closely with the government to develop viable solutions to water and power problems. Alternative means of financing water and power improvements are being examined with primary emphasis on increased private sector involvement.

Various methods of public financing as alternatives to direct Federal grants will be explored. In the meantime, emergency repairs of the water system are underway. Also, a comprehensive survey of the power system was recently conducted through our technical assistance program. Long-term improvements to the water and power systems will require closer scrutiny with attention to alternative financing and energy sources.

The Virgin Islands has tremendous potential for future development. Much of this potential is derived from its beautiful natural environment, its proximity to the United States and its centralized location in the Caribbean community. Last week, we co-sponsored with Delegate deLugo a workshop on business opportunities in the Virgin Islands. We are optimistic that such activity, in conjunction with the larger Caribbean Basin Initiative, will greatly enhance private sector development in the Virgin Islands.

Northern Mariana Islands

Our budget includes \$26,729,000 in guaranteed Covenant funding for the Northern Mariana Islands. This money, which is adjusted each year for inflation, is used to support government operations, capital improvements and economic development.

Construction of the new hospital facility is now underway. Site preparation is near completion and contracts have been awarded for the remainder of the project. Contracts awarded to date are within the \$20 million that was appropriated over the past two years. We are concerned and are trying to provide as much technical assistance as possible to ensure that adequate funding will be available for operation of the hospital once it is completed.

We are also concerned about the adequacy and quality of the water supply in the Marianas. Much of the capital improvement money included in the Covenant funding is earmarked for water improvements. We will work with the Governor through our technical assistance program to provide expertise and resources from the Department's Bureau of Reclamation and other federal agencies to help resolve this problem.

Technical Assistance

For technical assistance, we are requesting \$2,200,000. This is the same as the amount appropriated last year. After consulting with the territorial leaders, we have developed projects that will aid the territories in areas of financial management, communications, health, operations and maintenance, and economic development. In recent years, much of the technical assistance effort has been necessarily geared to preparing the Micronesian governments for their new status under the Compact of Free Association. Beginning in fiscal year 1984, and particularly in 1985, the focus of the program will shift toward projects within the United States territories. As I mentioned earlier, it is through our technical assistance program that we plan to fund many of our initiatives in the areas of increased government efficiency and diversification of territorial economies.

Office of Territorial and International Affairs

For the Office of Territorial and International Affairs, we are requesting \$2,828,000. This is a substantial increase over the current appropriation, but one that I consider necessary. Almost all of the additional funds will be used to fill vacant positions in the territories and to increase travel. Since the comptrollers were removed from our office, funds have not been sufficient to fill several technical assistance vacancies in the territories. I believe that filling these positions will greatly enhance our ability to respond to territorial needs and to pursue our programs. I also believe that the office was justifiably criticized in the past because staff members were not spending enough time in the territories, a problem which I have tried to rectify during the past few months. Travel to the territories is expensive, but it is essential to our gaining an understanding of changing territorial needs and providing adequate support for the territorial governments.

Fiscal Year 1985 Budget Request for the Trust Territory of the Pacific Islands

Rather than duplicate the statement to be made by the High Commissioner, I will confine my remarks to a few areas of particular interest and concern that I have with respect to the Trust Territory budget.

The Compact of Free Association for the Republic of the Marshall Islands and the Federated States of Micronesia was sent to the Congress on March 30, 1984. We recommend its approval and hope that the process can be handled expeditiously. Realizing, however, that there was a strong probability that final approval would not occur until after the end of fiscal year 1984, we thought it essential that our budget continue to fund the operations of the Micronesian governments until the Compact is in place. We also believed that prior Administrations and this Administration have made funding commitments for basic capital infrastructure that must be honored before implementation of the Compact. These commitments are also reflected in our budget.

During my brief tenure at the Department, I have traveled extensively throughout the Trust Territory. One area of particular concern to me is the establishment of an effective program of operations and maintenance of the large capital

investment that has been made in Micronesia. I personally have been involved in the program. We are also in the process of hiring a highly skilled engineer and manager who will serve as the liaison and coordinator of our operations and maintenance program. We hope that this will help ensure continuation of the program, even after Compact implementation.

Another problem that must be resolved is the increasing debts owed by the Micronesian governments for medical referrals. The combined debt now exceeds \$4.3 million. I believe that the Micronesian governments must accept the responsibility for paying these bills, at least those incurred since fiscal year 1982 when they became constitutional governments. Since these governments are making the decisions to send patients on referrals, they must adequately budget for these costs. We are working with the individual governments and the Department of the Army to develop reasonable payment schedules for liquidating the debts. We are also working through our technical assistance program to find ways to reduce the cost of future medical referrals.

I am also particularly concerned about the financial condition of the Micronesian governments. Of the three national governments, only the Federated States of Micronesia (FSM) appears to be operating effectively within its budget, although at least two of the FSM state governments are experiencing budget deficits. In the Republic of the Marshalls, the government has incurred a tremendous debt burden which has seriously hampered normal government operations. On a positive note, the Marshalls government has worked diligently during fiscal year 1984 to restructure its debt and operate within its budget.

The Republic of Palau, however, faces a serious financial crisis. Despite strong urging from my office and from the High Commissioner, and with support from the United States Congress, little action has been taken by the Palau government to improve the financial situation. Most of the problem is attributable to the failure of the Palau legislature to deal with the issue. Cost saving and revenue producing initiatives introduced by the executive leadership in Palau have been thwarted by legislative inaction. A large scale government shutdown is imminent. I will continue to offer technical assistance and encouragement; but will not waiver from my position that the government of Palau must take the initial and decisive action to resolve the crisis.

That concludes my opening remarks. My staff and I are prepared to discuss these issues in more detail or answer any questions you may have.

STATEMENT OF JANET J. MCCOY

I am pleased to have the opportunity to appear before your Subcommittee to present the Trust Territory's appropriation request for fiscal year 1985, and to report on recent developments in the Trust Territory. First, let me introduce my staff who are with me today to provide more detailed information in areas of particular concern. With me today from Saipan are former Congressman N. Neiman Craley, now Special Assistant to the High Commissioner; Rodney Adelman, Director of Budget; Charles Jordan, Director of Planning and Statistics; Eloy Inos, Director of Finance; and Andrew Wilson, Assistant Attorney General.

Last year, I began my statement with a short commentary on the progress of political developments in the Trust Territory. This progress is continuing, as evidenced by President Reagan's transmittal to the U.S. Congress of the Compact of Free Association for the Republic of the Marshall Islands and the Federated States of Micronesia. Progress is also continuing in the social and economic development areas within the Trust Territory.

Let me briefly describe some of these significant developments. New airfields have recently been completed in Truk, Yap, Kosrae, and Palau, which provide safe and appropriate landing facilities for tourists and other visitors to these locations, as well as more efficient mail service and freight movement capabilities for perishables and other urgent items. In Yap and Palau, water service is now available around-the-clock, and in Majuro, major water and sewer improvements are being made. New Capitol

facilities have been designed for the Republic of the Marshall Islands and the Federated States of Micronesia, and only await construction funding in order to proceed. Local involvement in the Capital Improvements Program has been significantly increased with direct oversight by the Micronesian governments on many new projects. As a result of the recent opening of Kosrae's airport-dock-harbor complex, a major shipping line has identified the State of Kosrae as a transshipment point, thereby creating new jobs and increased markets for goods from Kosrae and other areas in Micronesia, as well as opening potential new markets for American goods throughout the South Pacific. New privately-financed hotels are being constructed throughout Micronesia, an accurate indicator of investors' optimism concerning the future tourism potential of the area. The Enewetak Motor-Sailer is operating successfully in the Marshall Islands, allowing improvements in the quality of life for the Enewetakese. All seven satellite earth stations are now on-line throughout Micronesia, providing improved communications capabilities to points within Micronesia and throughout the world. New financial management systems have been successfully installed and are currently operating in Palau, the Marshall Islands, and Pohnpei in the Federated States of Micronesia. The operations and maintenance of public facilities and infrastructure have been greatly enhanced through the use of special funds made available for this purpose. We are making great strides against the cholera situation in Truk with the use of FY 1984 funding for a continuation of the Rural Sanitation and Health Education programs. As you can see by these significant developments throughout the Trust Territory, it has been a very busy and at the same time a most productive year, as we expect FY 1985 to be also.

Turning now to the business at hand, the FY 1985 appropriation request, our request for the Trust Territory totals \$96,132,000. While this amount is a decrease of \$15,977,000 from the level of the FY 1984 appropriation, it is an increase of \$8,143,000 over our original FY 1984 funding request. Increases are proposed for normal operations funding for the three Micronesian governments and the College of Micronesia, Enewetak Support, and Trust Territory Administration. These increases should help offset the effects of inflation on the operating costs of the three Micronesian governments and the College. Our FY 1985 funding request also includes a reduction in funding for Operations and Maintenance and the elimination of funding for Bikini Support, Cholera Control, and the Contingency Reserve. The requested level of funding remains unchanged for Satellite Communications. Funding for Trust Territory Construction will be reduced, although \$18.2 million is being requested to meet the U.S. commitment for Capitol Relocation assistance. The balance of the construction funding is intended to complete the original Capital Improvements Program.

The FY 1985 funding request for the Trust Territory Administration is \$4,532,000, an increase of \$113,000 above the current fiscal year. The requested increase consists of \$100,000 to fund the additional costs of the Prior Service Social Security Benefits program in FY 1985 and a net increase of \$13,000 to provide for full-year funding of the January 1984 pay increase for U.S. Civil Service employees. Any additional cost increases will be absorbed through continued reductions in staffing in those areas of responsibility being assumed by the Micronesian governments. We have continued our efforts in winding down Trust Territory Headquarters, as the Micronesian governments continue to assume and to perform an increasing array of governmental functions. This has been accomplished without adversely affecting the services provided to the new governments. The remaining Trust Territory Headquarters operations will continue at the minimum level necessary to meet our remaining responsibilities under the U.N. Trusteeship Agreement.

The FY 1985 funding requests for normal operations of the three Micronesian governments have been developed by those governments, within the funding levels authorized by the President. Representatives of each the three Micronesian governments have been invited to testify in further detail as to the funding requests for their respective government. Those requests include the Republic of Palau - \$10.6 million, an increase of \$147,000; the Republic of the Marshall Islands - \$11.5 million, an increase of \$365,000; and the Federated States of Micronesia - \$40.4 million, a net increase of \$1,200,000, after elimination of the \$2 million provided to the FSM in FY 1984 for

emergency cholera programs. The increases provided for each government have been distributed to various program activities, based on the particular needs of that government. This practice is consistent with our efforts to provide greater flexibility and responsibility to each of the governments in the management of their domestic affairs.

The FY 1985 funding request for the College of Micronesia is \$1.6 million, an increase of \$100,000 over the FY 1984 funding level. The FY 1985 funding request for Operations and Maintenance is \$3 million, bringing the total funding for this program during the last five fiscal years to over \$26.4 million. This is over \$5 million more than the original 1981 Operations and Maintenance Study recommended, and has been used to greatly enhance each government's capabilities to operate and maintain its public infrastructure and facilities. Based on this fact, we intend to broaden the scope of the Operations and Maintenance program to include those O & M items not specifically addressed in the 1981 Operations and Maintenance Study, which focused primarily on the Public Works area. A total of \$900,000, an increase of \$100,000 over the FY 1984 funding level, is being requested in FY 1985 for the Enewetak Support program. This increase will be used to help over the operating costs of the Enewetak Motor-Sailer, as well as to offset any increased costs of the basic support program. Funding for the Satellite Communications program will remain at \$1 million for FY 1985. Funding for the Contingency Reserve has been eliminated, assuming that no new major claims or judgements are made against the Trust Territory during FY 1985. Funding has also been eliminated for the Bikini Support program, which will continue to be operated by the U.S. Department of Agriculture. No additional funding is being requested for the emergency cholera program. Through prudent use of the nearly \$3.6 million previously appropriated by the Subcommittee, significant progress has been made towards the control of cholera. The Rural Sanitation Program in the State of Truk will continue through FY 1985 with funding provided in FY 1984. While cholera will likely remain endemic to the State of Truk, we believe that everything that can be done is being done to control and eventually wipe out this disease.

A total of \$22,600,000 is being requested in FY 1985 for the Trust Territory Construction program, of which \$18,200,000 is being requested to meet the United States commitment to the three Micronesian governments to assist in their Capitol Relocation efforts. This request includes \$2.6 million for the Republic of the Marshall Islands, \$2.6 million for the Republic of Palau, and \$13 million for the Federated States of Micronesia. This will bring the total U.S. contribution towards the Micronesian governments' Capital Relocation efforts to just over \$21 million. The remaining \$4.4 million is requested to provide the necessary funding to complete the original Capital Improvements Program. Of this amount, \$2.4 million is requested to construct general purpose airport terminals at the new or improved airport facilities in the FSM States of Kosrae, Ponape, Truk, and Yap; and \$2 million is requested to continue the construction of a circumferential road in the State of Kosrae. With this additional funding, it is our belief that the necessary infrastructure and public facilities essential for continued social, political, and economic development will have been provided to the various Micronesian governments. Construction in each of the areas is also continuing with funds provided in previous fiscal years. It is important to note that many of the projects for which funds have recently been appropriated will be constructed under the supervision of the three Micronesian governments. This process will allow them to gain the experience necessary to most effectively use those funds provided in the Capital Account pursuant to the Compact of Free Association.

In conclusion, Mr. Chairman, I would once again like to thank you for your continued cooperation and support of our efforts in the Trust Territory. I believe we are making real progress in helping the people of Micronesia realize their goals of self determination and self sufficiency, and in fulfilling our mandate under the U.N. Trusteeship Agreement. Your cooperation and support have been instrumental in our success, and it is my hope that such support will continue during our remaining tenure as the Administering Authority.

This completes my opening statement, Mr. Chairman.

SECRETARY'S FINE JOB

Senator McCLURE. Before doing so, however, I wish to congratulate you on the fine job which you are doing. I think that has already been reflected in the statements of the representatives from the territories who have already spoken this morning, and I know you have spent considerable time traveling to each of the islands. The word that I get back, both directly and indirectly, is that each of your visits has been constructive, and I think for the most part greatly appreciated.

Of course, it is not possible to please everyone. You have not been able to do that; I have not been able to do that. But I do believe the experience I have had since first getting involved in the territorial issues in 1967 has been that going to the islands, meeting with people in their home territory, talking to them on their own ground and at their level, looking at their problems firsthand is absolutely necessary.

And one thing I have learned in the years that I have been involved is that the people of the islands admire honesty. They admire those who take a true interest in their problems and their progress.

From what I have heard in the reports, they feel that way about you in your initial contacts out there, and I believe that is reflected again in the statements they have made here this morning.

STATUS OF GUAM TUMON BAY DEVELOPMENT

Focusing now with specific questions concerning each of the territories and the trust territory governments, the Congress last year appropriated some \$11,350,000 for construction associated with the Tumon Bay development project. This project has been touted as among Guam's most important projects aimed at economic development.

Can you give me the status of that project? What is the expected completion date, and what problems have arisen which may stall or delay completion?

Mr. MONTOKA. The Tumon Bay project, as you will recall, Mr. Chairman, was one that the administration supported. The only difference that we had with the leadership from Guam is that we were basing it on a phased-in budget that would go through 2 years rather than the 1 year that was finally enacted.

We are aware—and we talked about this with the people in Guam—we looked at the plans for the project, and they look quite impressive. The designs have come in. At this time they are looking at two different designs, one which would have a clover leaf configuration which would allow for a smoother traffic flow, another one that would use the traditional traffic signals which would be less expensive.

MOVEMENT OF POWER LINES

One of the concerns that we have regarding the project moving in a timely basis—and we think we are 24 months out on that, and we anticipate this project being contracted for in June—is the movement of power lines. The Navy owns the easement on the side of the road,

which may cause some delays in getting that project moved forward. The Guam Power Authority has begun to discuss this issue with the Navy, and what we have are two sets of power lines.

GPA—Guam Power Authority—would like to move these power lines underground, but again the issue is going to involve some costs and some cooperation on the part of the Navy to get this done. As I understand, this is the first of the steps that has to be undergone before we can start actual construction.

Senator McCLURE. Are you having problems with the Navy in regard to that cooperation?

I have heard some reports that perhaps the Navy is less than completely cooperative.

Mr. MONTROYA. This will be an issue, Mr. Chairman, that I will cover in a little bit more detail as we get into a discussion of Guam Power Authority and some of the other power authorities throughout the territories.

There is some conflict between the Navy and the Guam Power Authority that causes me some concern. I have had some initial meetings with the Navy regarding the power pool agreement, and again as we get into specifics of each territory I would be more than happy to go into greater detail.

Senator McCLURE. Who owns the power line?

Mr. MONTROYA. The Navy does.

Senator McCLURE. Does the Navy, or do they just claim it? You are satisfied that they own it?

I know the Navy has battleships and they have fighter aircraft. That doesn't always necessarily give legal title although certainly possession is nine-tenths of the law in some instances.

The hurricane blew the power lines down, right?

Mr. MONTROYA. That is correct.

Senator McCLURE. Congress appropriated money to have them rebuilt. The Navy was the contracting officer and had that rebuilt, is that not correct? Does that vest title to them, or did they simply claim it?

Mr. MONTROYA. Right now there is some confusion on this, and this is a point that we are trying to address with the Navy.

Senator McCLURE. Well, let me ask another question, or let me ask that in a different way.

Does the problem that is perceived in working out how this will be dealt with—is it a question of who owns it? Is that the real question, or are there other questions that are involved?

Mr. MONTROYA. There are several questions involved in this. First of all, the way that the cost is being calculated. We have had indications from the Navy that they do want to work on this thing with the Department of the Interior and Government of Guam.

I think it is appropriate to go ahead and discuss GPA at this time if it is all right with you, Mr. Chairman.

We had a very serious chain of events that started taking place in December. In December, the Bank of America notified GPA that they were going to be held in technical default. At the same time GPA missed their December payment to the Federal Financing Bank. Both loan amounts are in the range of about \$35 million. The Bank of America loan is at 7 percent—7 to 8 percent—and the FFB loan is about at 13 to 14 percent.

The problem was that the Guam Legislature passed a piece of legislation that did away with the rate increase. It also retrieved the ratemaking authority back to the legislature.

This was a bad policy from the start, whenever you have politicians setting rates rather than the market determining what the rate should be with an equitable treatment to the consumers.

So Governor Bordallo discussed this issue at great length. It appeared that this action by the Guam Legislature was a politically expedient move that endangered the whole operation of the Guam Power Authority.

An action was taken that should be applauded in which the Governor introduced some legislation. The legislature bellied up to the bar, so to speak, and they put the authority of ratemaking back with the GPA Board, where it belongs.

Then in about February they approved a rate increase of some 19 percent from 10.9 cents to 13.7 cents per kilowatt hour.

This was important to us, but what brought us to the point where we had problems with GPA in my view was twofold: the issue that I have already discussed, which was the legislature getting involved in the rate-making and then the Navy power pool agreement.

The power pool agreement, as I understand, was set up so that in time the Navy would become a customer of Guam Power Authority. Well, that was several years back, and there has been—1972 is when that was entered into—and there has been some discussion that has brought us to loggerheads as to when the Guam Power Authority will be ready to take over all of the operations of power generation as well as distribution from the Navy.

There are many inconsistencies there. One is the calculation of the assets that belong to the Navy. The second is a disparity between what the Navy personnel gets paid and the GPA personnel get paid, which causes some ruffled feathers, as one can well imagine. It also increases the cost of overhead in that whole operation.

The aging of the equipment and the efficiency are other questions that need to be asked. Are we talking about a depreciated price, or are we talking about a fair market price at this time for GPA to take over?

Senator McCLURE. Are you talking about a payment to be made by GPA or talking about rate base?

Mr. MONTOYA. Actual sharing of cost.

I would like to defer to Mr. Solomon to tighten this all up in a concise package because he has been working with GPA on this.

POWER POOL AGREEMENT

Mr. SOLOMON. Yes, Mr. Chairman.

The power pool agreement in Guam is a unique situation. It is not a normal relationship between two power utilities on load-sharing work or backing up for power. This is sort of a partnership agreement entered into by the Navy and GPA back in 1972, where they will share the costs of their operations which go into this complicated formula, and then it is distributed back out.

What happens is when this agreement was first put into place, the Navy had most of the production facilities, and they own all of the distribution rights, or at least they claim they own all the distribution rights. They have more people and more guns, so they own them.

As time went on—as time goes on, the Navy assets remain constant. GPA put in a large powerplant at Cabras Island, and they took over as the main producer of power on the island. So they now are producing the bulk of the energy and distributing it to the Navy assets, and the Navy's units are used primarily as backup and for peaking.

As that happens, there are things that take place in this power pool agreement where the sharing of costs seems to benefit Navy's side of it, according to GPA, and the salary differential the Assistant Secretary mentioned, where the salary rates of the Navy are one and a half to two times the GPA salary rates.

So this causes some inequities in the cost sharing, and the ultimate goal of this agreement was for GPA to become the main producer of the power, the Navy to go more to a customer status on the island and eventually with reduced rates because of the large user.

The original issues are spinning reserve, which really refers to how much power they should keep hot on the system, and Navy's requirements are naturally, because of defense purposes, higher than GPA's are, and that has been a point of contention as to how much power should be ready on standby.

And some of these things have been worked on between GPA and Navy over the last 4 or 5 years, but it is still in the process of being resolved. We would like to see GPA move to take over the operation and eventually get Navy into the customer status the way it was originally planned.

Mr. MONTOYA. The bottom line is, I think, now that there is an appreciation in Guam that the legislature needs to be out of the power rate setting business, which should be back with the board, that we will have proof positive that there will be the financial capability on the part of GPA to provide product to the Navy, and that should remove the major bone of contention which is keeping the Navy from moving out of the power generating business that they should not be into right now.

Senator McCLURE. Is there anything that Congress should do in that situation at the present time, or is it proceeding along lines that will bring resolution without the intervention of the Congress?

Mr. MONTROYA. Well, we think the fact that this has been discussed in this committee would add a lot of credence to our efforts with my colleagues over at Navy, that it is the intent of the Congress to move forward in an equitable solution to this long frustrating problem.

ST. CROIX RUNWAY EXPANSION

Senator WEICKER. I have a series of questions, Mr. Chairman, that I will submit for response to the record.

There is only one question I would like to ask, but first of all, let me say that, obviously, I disagree with the 25-percent cut below the fiscal year 1984 appropriation that has been asked by the administration. There are many areas of concern, and those will be highlighted in the questions that I ask for response to the record.

But there is one thing. One small example of my concern, which is clear to me, since the island of St. Croix has asked for completion of the airport improvements.

I gather the administration is not going along with these improvements, is that right?

Mr. MONTROYA. I have had several discussions.

Senator WEICKER. At the same time, they are scrambling around building the airport in Grenada, for whatever ill-advised reasons.

It seems to be a contradictory policy here, and I think maybe we might do well to take care of our own and accede to the request of the Virgin Islands, if we really intend to do that.

Mr. MONTROYA. Senator, I have had several conversations with the FAA regarding this topic. I know that Delegate de Lugo has also talked to them at great length, as recently as in February when Secretary Dole was going forward with her budget oversight process.

The St. Croix runway was an item that was being discussed. We have some indication from the Department of Transportation that there is an appreciation for the key role that the Virgin Islands can play in the whole CBI—the whole Caribbean Basin initiative.

Your point is well taken, and I feel that we are making some progress in that regard with St. Croix, and I know that the St. Thomas Airport is moving forward.

Senator WEICKER. Well, are you asking for the appropriation?

Mr. MONTROYA. For St. Croix Airport?

Senator WEICKER. Yes.

Mr. MONTROYA. No, sir.

Senator WEICKER. All right. Well, these things will be pursued in the questions I will ask for response to the record, and I thank you very much.

GUAM HOSPITAL RENOVATION

Senator McCLURE. Thank you, Senator Weicker.

For the past 2 years the Government of Guam has identified renovation of the hospital as a high priority in need. Last year the Senate included \$2 million in its bill to begin this renovation. However, the

funding was dropped during conference with the House. Does the Department feel any of this renovation project is urgent, and if so, why then have you not requested funds to begin such renovation work?

Mr. MONTÓYA. When we were developing the fiscal year 1985 budget there was much confusion over what cost estimates were going to be to bring the hospital in line. Along that same timeframe, as best I can recall, they had the lost accreditation problem. However, the hospital renovation has not always been their top priority. On the submission that they gave us last year, as we were going through the planning cycle, it wasn't the top priority. In fact, it was 12th on the list that they provided.

We had figures that ranged, Mr. Chairman, from \$1.8 million all the way up to \$10 million in how much money was going to be needed. The director of the hospital requested a loan from the legislature, or a general fund appropriation, of \$1.8 million to begin immediate improvements on that facility, which, to the best of my knowledge, would bring it into line. That would meet the immediate need and the emergency need and not endanger the health and welfare of the people of Guam.

Recently, April 1, they established a 12-percent rate increase that will cover the current operating cost, but not capital improvement. The bottom line is, I think, that at this juncture we can hold with the lack of requests for funding for the hospital because I think they can meet these immediate needs on their own.

Senator McCLURE. Did the legislature appropriate the \$1.8 million?

Mr. MONTÓYA. It is still pending.

Senator McCLURE. And if they don't get the \$1.8 million from the legislature, or if the legislature is unable to come up with that money, will the health requirements of the people of Guam be compromised as a result of the identified needs for hospital renovation?

Mr. MONTÓYA. As I understand it, the main hospital is in good shape. It is the old hospital that has caused them some problems and, again, as it was explained to me, the old hospital is being looked at to serve as a long-term care facility for the elderly. So, I know that the director of the hospital board has got a wealth of information on this topic and I would defer to him. But in our view right now, I think they can make it.

Senator McCLURE. I will ask further questions for the record with respect to that question because I am very much concerned, as is evidenced by the action we took last year, that that situation be corrected.

If indeed the people of Guam can finance it directly by an appropriation from their legislature, that is something perhaps we should expect them to do. If, on the other hand, they find that impossible to do, then, as is the case in many instances, we simply have to look at our responsibility and see if we can supplement what they can do with what we can do in order to meet their identified needs.

Mr. MONTÓYA. They are moving in a positive direction. Governor Bordallo and I have talked at great length about privatization, and one

of the areas that comes to mind especially in Guam, and perhaps even the Virgin Islands, is privatization of the health portions, such as the hospital. It is encouraging to note that recently Governor Bordallo entered into an agreement to privatize the Guam memorial health plan, that was done last week. So, we are making some movement in regard to that, and that really is one of the keys to making these governments operate more efficiently.

VIRGIN ISLANDS WATER AND POWER REPORT

Senator McCLURE. In the report accompanying the Senate's fiscal year 1984 Interior appropriation bill, the Department was directed to prepare a comprehensive analysis of the water and power requirements of the Virgin Islands, including a schedule for necessary improvements, repairs or other actions, and the estimated costs involved. That report was due to the committee on January 1, 1984, but has not yet been received. How far along are you in completing this analysis and when can we expect to receive it?

Mr. MONTOYA. This is one of the items that, of course, when I took over I started moving forward with. I have asked Frank Solomon, Director of Technical Assistance, to ride herd on this project. We have asked Jim Carriere, whom we have contracted to act as our trouble-shooter on power issues, to go down there, and he was down there 1½—2 months ago.

So, I would like to, at this time, recognize Frank Solomon and Jim Carriere to address the specifics of this water/power plan.

Mr. SOLOMON. Yes, Mr. Chairman. We have, in regard to the actual report, a final draft now within our office on part one, which refers to the condition of the plant and some recommended improvements as to how we should go ahead and proceed. The second part of the plan refers to the different types of financial options for funding this expansion and improvement. That phase of the study is not complete, but we would anticipate we would have a final report to the committee in about 45 days.

We can provide the first part of it, which talks about the condition of the powerplants, and have it sooner than that, and have it very soon. The financing options portion will take at least another 3 to 4 weeks to get finalized.

Senator McCLURE. If you would, please, get the first part of the report up to us. I think that is the part directly responsive to the questions that were asked last year. The second part would be useful as we try to find out ways to answer it, but that wasn't required in the appropriations action.

Mr. SOLOMON. Mr. Carriere is now at the table, Mr. Chairman, and he went down to the Virgin Islands and spent a considerable time down there working with the Virgin Islands WAPA people. He can give you a brief explanation of what he found out and his opinions on that process if you desire.

STATUS OF VIRGIN ISLANDS POWER GENERATION

Mr. CARRIERE. The power system in the Virgin Islands was developed over a long period of time and, as a result, they have had many different sizes of units, diesel, steam, and turbine units—gas turbine, combustion turbine. As a result they have control problems. And the first things that they need to do is to centralize their control system. They have some old units that they no longer need that are not sized correctly. They should take them out of the system so that they can tie in the steam and the diesel and the turbine set-ups so one backs the other system up. And they are aware of all these problems and quite well on their way to doing that. So, I really don't see any problems that they won't be able to face themselves.

Senator McCLURE. In the draft report, will you be able to give us the information of what the necessary improvements, repairs, and other actions may be and what the estimated costs are?

Mr. CARRIERE. Yes; in the report we have made recommendations and estimated approximate costs.

Senator McCLURE. That will be included in the report that will be made available to us in the very near future?

Mr. CARRIERE. Yes, sir.

Mr. SOLOMON. Yes, sir.

STATUS OF AMERICAN SAMOA FINANCES

Senator McCLURE. Thank you. Last year the American Samoa Government identified significant financial difficulties which required immediate attention. Such attention was given by the government, by the Department, and by the Congress. It is my understanding the situation is now very much under control. Can you briefly explain for the committee what the current situation is, the steps already taken to get the difficulties under control and any actions that remain to be taken to assure these difficulties will not recur?

Mr. MONTROYA. Yes, sir. Obviously, the fine help of this committee and the House committee were extremely helpful to assist American Samoa to get over this rough spot.

One of the problems, obviously, that we run into in the territories is the great number of people that are on government payrolls. These governments are not supposed to act as the employment agency for the territories. The private sector is the key to real economic help in the territories. Governor Coleman seized the opportunity in working with the local legislature. He and they took the tough actions needed to reduce expenditures and, as we all know, the two ways that we correct the problems of a financial nature are, you either reduce your spending or you increase your revenues.

Well, with the assistance of the \$7.2 million revenues provided by this body as well as the negotiation of a successful tax settlement with the tuna industries, we are now able to brag on a fiscal year that closed in the black. The financial condition is healthy, the capital improvement program is back on schedule. We have got improved procurement and improved financial accountability.

Now, in the area of what are we doing and what did we do? What we did is, we sent Frank Solomon down there to work with the Governor and design a plan that would reduce expenditures and to stretch their existing resources as far as possible. That was about a 4-month period that we had a Department of the Interior individual down there. We also sent a team of experts down to take a look at the government operations and develop a proposed streamlining of the government in American Samoa. That is now pending. It has been presented to the Fono and to the Governor, and hopefully the Governor will be acting on that. Again, with the idea in mind to reduce the size of government there in American Samoa. And this might be a topic that the chairman would want to pose to the Governor. Right now we have a senior-level technician, Mr. Dale Jones, in American Samoa who is working on a day-to-day basis with Governor Coleman and the whole Government of American Samoa. So, I feel very good about the possibilities for American Samoa in the future.

Senator McCLURE. Let me skip for a moment to the end of the series of questions now, and I'll submit the balance for the record.

[Telephone interruption.]

CORPS OF ENGINEERS GENERATORS IN AMERICAN SAMOA

Senator McCLURE. I apologize for the interruption but something has come up that requires some immediate attention, but I will try to do the best I can to keep some continuity to the questions. I did want to get into the question of the power supply in American Samoa. And particularly, for the record today, the question of the use of the Corps of Engineers generators. How many Corps of Engineers generators remain in American Samoa and how many of these are still in use?

Mr. CARRIERE. When I took over the power authority in American Samoa there was—and there still are—six units that were there. But over the past years, three of them have been pretty well robbed to keep the other three running and since these units were the easiest for me to keep running while I rebuilt the other system, I have kept three units in operation as a backup. They are backup systems right now, but I have been using them for the last year and a half. They are units that were in Vietnam back in the 1960's. I delivered them there in the 1960's. They had been returned and rebuilt two times. We have rebuilt them probably three times. There isn't much left there. They have been sitting out in the weather because they are box-type units and just about disintegrated, as far as the structure of them is concerned.

Senator McCLURE. Let me go back. It is my understanding that the initial agreement with the Corps of Engineers required that the generators be returned to the corps in the same condition as received; is that correct?

Mr. CARRIERE. That is correct.

Senator McCLURE. Is that feasible now.

Mr. CARRIERE. It is no longer feasible. Originally, when I had these units back in—I was in American Samoa in 1976, 1978, to rebuild the

system and that is when we brought the units down there. After I rebuilt the system, then I returned three of those units and the rest of them should have been returned. Luckily they weren't returned because the system collapsed and they were used another 5 years. It is really no longer feasible to rebuild those units.

Senator McCLURE. How long would those units have remained in service if they had been in other service for the Corps of Engineers?

Mr. CARRIERE. That type of unit—high speed diesel—20 year's life is about it. By that time they have been rebuilt so many times you can no longer stand them on anything.

INTER-DEPARTMENTAL ISSUE

Senator McCLURE. Mr. Secretary, does Congress need to resolve that issue or is that something that can be worked out between the departments?

Mr. MONTROYA. This is an issue that I met with the Corps of Engineers about 5 months ago. I proposed what I thought was an equitable solution to this long pending problem and that was taking Mr. Carriere's figures of the real value of those generators, with their being about 20 years old, I felt it was appropriate and right that they be excessed and turned over to American Samoa to continue to be used as a backup system. I think representatives of the Corps of Engineers were going to visit American Samoa sometime next month, but as yet, I have not received a response from the corps, and at that time, they didn't feel that excessing the generators was a viable alternative because they said they were a part of their strategic inventory, I believe.

Mr. CARRIERE. Right.

Senator McCLURE. What is a part of their strategic inventory?

Mr. MONTROYA. The generators.

Senator McCLURE. The three that are robbed and inoperable and the three that are about worn out?

Mr. MONTROYA. That is my understanding.

Senator McCLURE. The Soviet Union feels a lot better about that.

Mr. MONTROYA. Well, it has been a pending issue for 5 years and I thought we made a real world, realistic-type compromise and proposal, but as yet, there has been no action on it.

Senator McCLURE. What would the corps have done with these if they had not been placed down there? Would they be sitting in a warehouse somewhere?

Mr. CARRIERE. Yes; they have a large depot with about 60 of these units laying around.

Senator McCLURE. So, they could have been in inventory and useable if they had not been furnished to American Samoa for use?

Mr. CARRIERE. Yes.

Senator McCLURE. It may be that Congress will have to act, but certainly if we are to act we ought to have that information. If you can push to some point of decision, either an agreement or the fact that there can't be an agreement, there is no point in allowing this to go on

indefinitely the way it is. If the Department is unwilling to make some reasonable agreement, the agreement requires them to be rehabbed and returned. I assume that really authorizes the Department of the Interior, through its budget, to purchase new units and to reimburse the Department of Defense with new units; is that not correct?

Mr. MONTROYA. They want to rebuild these and return these units back to their stockpile.

Senator McCLURE. Yes; they read the paper. They haven't looked at the units.

Mr. MONTROYA. That is exactly correct and I think there is a real willingness—

Senator McCLURE. I can read the paper, too, but that doesn't get anything done.

Mr. MONTROYA. I believe there is a willingness on the part of the corp's, but they are bound by Army regulations and I think they appreciate Mr. Carriere's position that these are worn out, tired units that need to be put out to pasture.

Senator McCLURE. What kind of regulation is it that says we entered into an agreement years ago and it requires us to do something that doesn't now make a bit of sense? Have we still got to do it exactly the way it was written then? That sounds like DOD, all right. [Laughter.]

Lest I be thought to be unfair to DOD, it also sounds like the Department of the Interior. [Laughter.]

If you will press forward, we will attempt to be of some assistance, but I have to know in which direction we have to assist.

Mr. MONTROYA. Be glad to.

NORTHERN MARIANAS HEALTH CENTER

Senator McCLURE. In fiscal year 1983, the Congress provided \$10 million as the first of three roughly equal appropriations for the construction of a new hospital on Saipan.

My understanding is that phase I site preparation is now complete and that phase II construction is just getting underway. Once construction is complete, the final phase will include the ordering of and installation of all equipment.

Based on the current situation, what do you expect the costs will be for all three phases, as outlined?

Mr. MONTROYA. According to the statements we have seen so far, Mr. Chairman, we feel that there has been some savings involved, approximately \$3.1 million. The project came in under cost on the site preparation, and the bids that the Government of the Northern Marianas received on phase II came in at a lower than anticipated price.

So our estimate at this time would be about \$26 to \$27 million. But this is going to be a long proposition that should extend into fiscal year 1986.

So again we feel that the Department's proposal is appropriate.

I would also like to mention that the administration came forward and at that time aggressively pursued the \$15 million mark because we

had seen instance after instance where these beautiful facilities were built but no appreciation was made for the staffing that was necessary or the maintenance that would be required of the local government to keep those buildings operating.

Buildings don't cure people; staff does. And now that we are stuck with this gracious amount of money, I think the best thing we can do is bring it in as much under cost as possible and pay close attention to the staffing needs and make sure that we don't get carried away with ourselves and have a white elephant sitting over there in Saipan.

STATUS OF CONSTRUCTION

Senator McCLURE. When do you expect the construction will be completed?

Mr. MONTROYA. In approximately 2, 2½ years.

Senator McCLURE. For construction alone? And that is not for equipment?

When do you expect the facility to open?

Mr. MONTROYA. Eighteen to twenty-four months.

Senator McCLURE. You can't equip it until construction is complete, can you? If I understood you correctly, you said construction would not be completed for 2 or 3 years.

Mr. MONTROYA. Well, they have got the ground preparation done now. They are in the process of doing the actual construction, so we are looking at about 18 months and then equipping it over a period of about 6 months, so I think a 2-year mark is probably accurate.

Senator McCLURE. For formally opening the facility?

Mr. MONTROYA. Yes, sir.

HOSPITAL STAFFING CONCERNS

Senator McCLURE. With respect to the operation of the hospital, what can the Department do now to help mitigate the problem of staffing and operation and maintenance costs?

Mr. MONTROYA. We have already authorized \$125,000 to provide a staffing study and then another \$100,000 to provide some key staffers that need to come online right away.

We asked the Northern Marianas Government to provide us with a list of key staff that they would like assistance from. They came back with a list of about 12 or 15 people and of those we agreed to provide funding for 3.

Senator McCLURE. Three of the fifteen?

Mr. MONTROYA. Three of the fifteen which we felt were essential at this point in time.

Senator McCLURE. And ultimately what will it be?

Mr. MONTROYA. Ultimately, they are going to pay for this out of their own funds, and the option that they were moving forward on was using the Tinian land use funds to offset the staffing costs—the interest from that Tinian land use.

Senator McCLURE. I will ask some further questions for response for the record in that regard, but let me shift for a moment to the trust territory.

With respect to health services, what is the current status of the cholera epidemic on Truk?

STATUS OF TRUK CHOLERA EPIDEMIC

Commissioner McCoy. I am pleased to say we have made good starts in that, Mr. Chairman. It is obvious that cholera is going to be endemic to Truk, but it is under good control now.

We have had—I think the last two cases were in April. I will have to get definite figures on it, which I can submit for the record.

The Rural Sanitation Program is going along very nicely, and, of course, that is one of the key parts of all this. So I would say that we are in much better shape this year, thank goodness.

Senator McCLURE. How about the leprosy problem on Ponape?

Commissioner McCoy. I have got some figures on leprosy, sir. I can briefly give them to you and then submit the whole report for the record.

Senator McCLURE. If you would do so, please.

Commissioner McCoy. It has been increasing down there, particularly out in Kapingamarangi and Pingelap Islands. We have had WHO—the World Health Organization—send a specialist out to do a survey on it, and we have found that in new cases, for instance Palau, we have had two. Yap had six. But Ponape did have a very large number—464 new cases.

Our involvement as far as the trust territory is concerned has been to relay the request for manpower and drugs to region 9 of HHS and also to WHO and to the University of Hawaii.

We also work with WHO for special training programs that have been offered through the TTPI at the specialized hospital at Suva, Fiji for that. FSM medical officers and medics have attended these trainings and laboratory technology and leprosy management since the program began in 1979.

There is a proposal now that WHO has made and the FSM has come up with their proposal, and they are trying to blend those two together to get the best results.

Senator McCLURE. I will look forward to that more full report for the record.

Commissioner McCoy. Surely.

STATUS OF KOSRAE AIRPORT

Senator McCLURE. I will submit a number of questions with respect to the airport construction, but let me ask this much at this time.

Yap State and Kosrae State have recently seen construction of new airport runway facilities.

Has the Kosrae runway been paved as yet?

Commissioner McCoy. No, sir, it has not, but it is in the planning stages, and I believe if you would prefer definite details on that, Mr. Jordan is here, who is head of our CIP, and he can tell you the exact stages of that.

Senator McClure. As I recall, when you testified last year it was in the planning stage. Are you paving it with paper?

Commissioner McCoy. No, sir.

Mr. Montoya. I am pleased to say that 1 month ago, Mr. Chairman, we took off from that airport. It has not been blacktopped yet, but it is usable, and we expect it to be online forthwith.

Mr. Jordan. Yes, Mr. Chairman, the airport is virtually complete with respect to the first phase of the project. The Congress was good enough to give us the money for some paving over 2 fiscal years.

Design of the paving structure as well as navigational aids will be completed by late July. We hope to go to bid with this project by August.

The estimate for construction for the paving is currently \$5.7 million. That is the Navy estimate—OICC and PACDIV, Honolulu.

We currently have funds available at \$4.5 million from the congressional appropriations. We are taking action through a reprogramming request to seek additional funding to cover the shortfall we have currently on the paving project.

Senator McClure. Would you provide for the record, please, a little chronological history with respect to the estimates, the congressional action, the departmental action, and the changes of cost and estimates of time on that particular project?

Mr. Jordan. Yes, sir.

Senator McClure. At the same time the Kosrae runway was being built, the contractor began construction of a dock facility adjacent to the runway.

What is the status of this project, and when do you expect it to be completed?

STATUS OF KOSRAE DOCK

Commissioner McCoy. I would like to speak to that if I may, Mr. Chairman, backed up by Mr. Jordan.

I am happy to say that the dock has been completed, and I think one of the best bits of news I can bring to you at this time is the fact that because of that new dock and because of the new airfield one of the big shipping companies on the west coast has decided to use those facilities as a transshipment point, making Kosrae a very central point for new industry, opening up new markets from our own west coast of America, down to Papua-New Guinea and through some of the other parts of the southern Pacific.

One of the Australian shipping lines will meet PMO there, and they will transship, and it is one of the most—I think one of the most encouraging things, and we are just real pleased that we have got that dock and that airfield.

Senator McCLURE. How about the water and electrical lines for both the dock and the runway? Do you have enough funds to complete those facilities?

Mr. JORDAN. Yes, sir, we do. The paving structure, which is under design, also includes the water and power service to the dock facility.

We are happy to report that we just awarded the contract to a drilling contractor to do exploratory well water work for the dock service area. We have enough funds for that. For the dock project itself we are using Coast Guard assistance to install permanent markers for the harbor. The shipping lines Ms. McCoy discussed will be serviced as soon as the markers are put in place.

STATUS OF NEW MAJURO POWERPLANT

Senator McCLURE. The Marshalls last year completed and began generating power at their new powerplant on Majuro. Has this new power generation system worked satisfactorily, or have there been problems in keeping the system up?

Commissioner McCoy. Oh, I would think that question would be better addressed to the Marshalls, sir, later on, but to my knowledge, since it is a private type of thing, to my knowledge it has been working very well, and they seem to be completely happy with it.

Senator McCLURE. What was done with the power generating equipment and facilities previously used on Majuro?

Mr. JORDAN. One of the generators was rehabilitated and is currently in the new hospital for emergency backup. The other generators are scheduled to be rehabbed and then shipped out to outer islands for use.

TRANSFER OF COLLEGE OF MICRONESIA NURSING SCHOOL

Senator McCLURE. It is my understanding that the Republic of the Marshall Islands continues to make plans to move the Micronesian Nurses School to Majuro from Saipan, once the new Majuro Hospital is complete. What is the Department's position on that proposal?

Commissioner McCoy. That has been in the works for some time and planned for some time; the fact is that they had originally decided to move the College of Nursing about 1 year ago, but it was decided it would be much wiser to wait until the new hospital was complete. But plans still call for it to move to Majuro.

Senator McCLURE. Would the Department be willing to support this move, including the possibility of providing financial assistance?

Mr. MONTROYA. One thing that causes me problems, Mr. Chairman, in reviewing the testimony of our island representatives, on the House side, is that each one of them has come in with a separate request dealing with their vocational school at Palau, the nursing school in the Marshalls, and the College of Micronesia in Ponape.

I think what this points out is that they are not coordinating their requests and they are not talking to each other, and I think this can be very dangerous and it can be counterproductive. So I think until they get together and decide how this whole college system is going to be set

up, it would be very premature to address this at our level, as far as whether we would be responsive to a request for additional moneys for the nursing school. They have got to work together.

Senator McCLURE. I assume that the Department is using its offices to try to get them to consult together and get some cooperative action?

Mr. MONTOKA. Indeed. I would like to defer to Ms. McCoy on the specifics of that and the efforts that have been taken.

Commissioner MCCOY. Yes, sir. It's been one of the things that I have certainly pushed ever since I've been out there to get the presidents of the three constitutional governments together. We had planned to have a meeting with them. I talked to each of them about it, and each one was enthusiastic about getting together.

So 1 year ago last January we had a tentative meeting set for Saipan. Unfortunately I used the word "some" which I have since learned is a buzz word to the Department and to the Government in Washington and it kind of got everybody a little concerned. It ended up we were not able to have the meeting anyway because of the plebiscite in Palau.

Finally the compact was shifted until February. We felt it looked much better for us to stay completely out of that picture. But I am extremely happy to report that last September at a meeting in Saipan—a totally different meeting—the three presidents did indeed get together and they came out with the Saipan accords at that time, and one of the things in there is support for the college.

Fortunately now also they have continued on this score and the three presidents have had two meetings since then. I think it is extremely healthy and a very productive idea and I have certainly encouraged them in this in every way that I possibly can.

Mr. MONTOKA. But they do need to coordinate these budget requests. That's the point we're trying to make.

Senator McCLURE. I have some questions that I will ask with respect to the administrative staff and the expenses for personnel. It seems to be particularly acute in Palau. I will ask for some response for the record on that.

STATUS OF REPAIRS TO PALAU HOSPITAL

I also would like to ask a question with respect to the emergency repairs at the McDonald Memorial Hospital on Koror. We, 2 years ago provided \$500,000 for that purpose and provided a similar amount for A&E funds for a new hospital on Koror. Why is the planning taking so long to get that new facility underway?

Mr. JORDAN. Yes, sir; the current status of the renovation of the Memorial Hospital is 20 percent complete. The Republic of Palau has designed—had the designs done for the renovation by the local architect and reviewed by the Navy. The Navy is assisting at Guam on the electrical aspects. I was just in Palau approximately 1 month ago and work is proceeding greatly now for renovation awards.

On the A&E for the new hospital, that money was turned over to the Republic of Palau. They hired Parsons of Hawaii to do the design and

that design is currently 50 percent complete, and I understand the A&E will be completed by this summer.

Senator McCLURE. Is there enough money there to complete the design?

Mr. JORDAN. My understanding is yes, there are sufficient funds for the design.

Senator McCLURE. That was a contract for design?

Mr. JORDAN. Yes, it was, sir.

Senator McCLURE. And the contract was fully funded at the time?

Mr. JORDAN. It is my understanding it was.

TECHNICAL ASSISTANCE REQUIREMENTS

Senator McCLURE. For fiscal year 1985 the Department has requested just \$2.2 million for technical assistance. Based on what I consider to be worthwhile requests received by the committee, the need among the island governments far outweighs the budget request.

Based on your own evaluation request and without regard to specific budget limitations, how much would you determine is necessary to meet the legitimate and even necessary technical assistance needs of the governments?

Mr. MONTROYA. When we were developing the 1985 budget, last year's figure was \$900,000 and in operating the past year we found that we did need to increase those funds so the administration came in with a request which we feel is a realistic request at the \$2.2 million mark.

One thing that we had prided ourselves upon in the last 6 months is leveraging this money. One of the things that we have successfully used the technical assistance funds for is to bring in policymakers to the territories by picking up their travel expenses. As you know, sir, right now the travel budgets of many of the other Federal departments are extremely tight, so this precludes some of the policymakers from coming out to the territories and seeing first-hand what the problems are.

So we have been able to leverage the technical assistance funds and I feel in an appropriate and efficient manner. So I am comfortable with the \$2.2 million figure that the administration has requested.

Senator McCLURE. So your request for 1984 at \$900,000 was——

Mr. MONTROYA. Too low.

Senator McCLURE [continuing]. Reviewed by Congress and I think we appropriated, if I recall correctly, nearly \$4 million for the calendar year.

Mr. MONTROYA. I think it was \$2.2 million for the fiscal year.

Senator McCLURE. There was a supplemental in addition to that, a 1983 supplemental.

Mr. MONTROYA. In 1983, \$2.2 million and a supplemental of \$1.5 million.

Senator McCLURE. That gets up pretty close to \$4 million; \$3.7 million is perhaps more accurate.

If we gave you the same amount of money again, could you spend it effectively and wisely? I know you'd spend it wisely yourself. Could you spend it effectively?

Mr. MONTROYA. It is more than adequate.

Senator McCLURE. That isn't what I asked. [Laughter.]

Mr. MONTROYA. I think again the \$2.2 million, along with unexpended funds that we've got right now, will suffice nicely. We're getting into a phase now where we're going into some long-range planning.

Senator McCLURE. Again that's not what I asked. [Laughter.]

I didn't ask you for your opinion. I asked you how much you wanted. I asked you if you could spend \$4 million constructively in technical assistance.

Mr. MONTROYA. Well, we wouldn't waste it, Mr. Chairman.

Senator McCLURE. I guess that says yes. [Laughter.]

If it doesn't say yes, tell me. Is the Department currently developing contingency funding plans should the compact be approved by Congress prior to the beginning of fiscal year 1985?

COMPACT CONTINGENCY PLANNING

Mr. MONTROYA. Let me ask my budget officer to answer that.

Senator McCLURE. Let me tell you what my concern is. The budget request, of course, does not contain the moneys that are implied as necessary if the compacts are approved. While your Department is not doing it, the administration is trying to get us to get in line to approve the compacts. If we approve the compacts, obviously then there are greater demands upon the budget.

What contingency plans are you making to meet that contingency in the event the Congress should approve the current compact?

Mr. MONTROYA. In the event the compacts should be ratified before the beginning of the next fiscal year, some additional funds would be required for the trust funds and I think there's about a \$150 million difference.

INTERAGENCY COORDINATION

Senator McCLURE. I guess what I'm really trying to find out—and I don't mean to be blunt but perhaps that's the best way to be—is the Department of the Interior talking to the State Department and is the State Department talking to the Department of the Interior?

Mr. MONTROYA. We are.

Senator McCLURE. And you have some knowledge of what each is saying? Are you making plans in the event the compacts are approved that would alter the budgetary request and if so, would that come through you? I'm groping because I can't find out from anyone.

Mr. MONTROYA. I think I see where you're coming from, Mr. Chairman. Let me attempt to answer the question in this manner.

The interagency group which I am a member of has already met. We discussed the concerns of yourself and the minority ranking member, Senator Johnston. The members of the Federal family were all in agreement that your points were valid and I think there has been a response to your letter to the President.

Senator McCCLURE. Has been from everybody except OMB. They don't seem to be a part of the administration.

Mr. MONTROYA. Moving right along—[Laughter.]—we have been meeting today and Ambassador Zeder and myself have discussed this very issue in Guam during the President's trip out there. We are planning to have another interagency meeting to move forward with the transition plans. We wanted to make sure that the compact was transmitted to Congress by the President before we started spending a lot of staff time. And so I guess the answer is yes, we are talking and we will continue to talk more frequently now that it appears that the compact is on track.

Senator McCCLURE. Are you preparing a fiscal year 1984 or fiscal year 1985 budget supplemental to meet that contingency?

Mr. MONTROYA. If that's necessary, yes, sir, we will indeed. We have not gotten to that point today.

Senator McCCLURE. Who has the responsibility for doing that?

RESPONSIBILITY FOR REQUESTING SUPPLEMENTAL FUNDING FOR THE COMPACT

Mr. MONTROYA. That will be the interagency group composed of the Department of the Interior, the Department of State, and the Department of Defense.

Senator McCCLURE. It will be, but who has the responsibility for developing a supplemental budgetary request? You know, where there are a lot of chiefs, there are probably no Indians. You probably have a lot of people in charge of a task force, an interagency group, but who is going to do the work? Where does that fall down under the departmental structure?

Mr. MONTROYA. We have taken the initiative on this issue because we've got High Commissioner McCoy sitting out there in Saipan and she's an integral part of this whole process.

Senator McCCLURE. That makes so much sense I doubt it will be done. That's part of our frustration, in that the interagency group as I view it has policy decisions but they have no line authority. They have no line structure, and if something happens to disconnect the responsibility for getting jobs done that's procedure and policy.

Mr. MONTROYA. The High Commissioner has already accomplished one heck of a Herculean task out there in closing that operation down, and this will continue as I understand. But again, we are taking the bull by the horns on this issue, and we will be moving forward because it is important.

Senator McCCLURE. Has the interagency group directed you to do so?

Mr. MONTROYA. No; but I feel it's appropriate for us to move forward with that.

Senator McCCLURE. I hope you will tell them you're doing it so they might know.

Mr. MONTROYA. We will indeed.

Senator McCCLURE. The information is flowing down the chain, let's make sure some information is flowing up the chain. You may well

find when you've gotten all of that done that somebody over in the State Department has undertaken the same sense of responsibility and they, too, are doing something. Or it might be in the Department of Defense, or it might be a subcommittee of the United Nations. I don't know. And I suspect the administration doesn't know.

I applaud you for anticipating the problem. I'm glad somebody is. But I don't see it emanating from the interagency group which is one of the very real problems that we have with this concept of an interagency group.

Mr. Montoya, again I wish to commend you on the way in which you have undertaken the task because obviously from your testimony here today as well as the responses we have received from a lot of other people, that you are working at the job and working effectively at the job. It is a big task, covers an awful lot of territory, if I can use that word without sounding like it's intended to be a pun, which it's not.

It is just a very comprehensive job with an awful lot of detail with many times insufficient assets to see that the job is carried out as efficiently and as effectively as we might like. We're spreading a lot of assets over a lot of different issues.

Mr. Secretary?

ADDITIONAL COMMENTS ON MICRONESIAN SELF-SUFFICIENCY

Mr. MONTOYA. Before we close, Mr. Chairman, I would like to have about 2 minutes to make a point.

As we move into this next phase of development in the territories, I appreciate your strong support of our position in the administration and that is the appreciation that the territories need to call these shots themselves. They have to be self-sufficient, they have to be self-reliant. They have to live within their means.

And given that there are limited resources available, Congress I think is now starting to appreciate that we can't continue to bail these governments out for failing to live within their means. And privatization is not something that has just come up that needs to be a fad. It is something that has to be put in place.

And I hope that this committee can support us in impressing upon the leaders of the territories that they've got to work together with us to make these governments self-reliant, to make the governments rely on the private sector, and not rely on this body or the administration to bail them out when they fail to set up priorities so that they can allocate those resources in the most effective way.

Thank you, Mr. Chairman.

Senator McCLURE. Thank you, Mr. Secretary.

There will be some additional questions for submission for response to the record.

SUBCOMMITTEE RECESS

Senator McCLURE. I think with that the subcommittee will stand in recess until 2 p.m., when we will take the testimony from government officials of the territories and the trust territory.

[Whereupon, at 11:50 a.m., the subcommittee was recessed, to reconvene at 2 p.m., the same day.]

(AFTERNOON SESSION, 2:20 P.M., THURSDAY, MAY 3, 1984)

DEPARTMENT OF THE INTERIOR

TERRITORIAL GOVERNMENTS

GUAM

STATEMENT OF HON. RICARDO J. BORDALLO, GOVERNOR OF GUAM

ACCOMPANIED BY:

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HERMINIA D. DIERKING, DIRECTOR, BUDGET AND MANAGEMENT
RESEARCH

JOAQUIN CAMACHO, ADMINISTRATOR, GUAM MEMORIAL HOSPITAL

JOAQUIN PEREZ, GENERAL MANAGER OF GUAM POWER AUTHORITY

PREPARED STATEMENT

Senator JOHNSTON [presiding]. Good afternoon. This is a continuation of the committee's review of the fiscal year 1985 budget request for the Office of Territorial and International Affairs.

This afternoon we will begin taking testimony from officials representing the island governments, beginning with Guam and then proceeding with American Samoa, the Commonwealth of the Northern Mariana Islands, the Federated States of Micronesia, the Republic of the Marshall Islands, and the Republic of Palau.

Due to the time constraints we invariably run into, I must ask that the delegations of those testifying from each of the governments keep within our 15-minute time limit. All written testimony will be made part of the record, so I would ask that you highlight your statement as you see fit. Your accompanying budget documents and explanatory materials will be retained in the committee's file.

I might say from a personal standpoint it is a pleasure to see so many old friends back again.

So we may begin with Governor Bordallo from Guam. Governor, we will have your statement, and of course we have had our session privately, so it is not necessary to go over all the same matters unless you would like to specifically highlight anything.

[The statement follows:]

STATEMENT OF RICARDO J. BORDALLO

Mr. Chairman, and members of this esteemed Committee on Interior Appropriations, I am Ricardo J. Bordallo, the Governor of the United States Flag Territory of Guam.

Before I address Guam's FY '85 appropriation requests, please allow me to express the appreciative "Si Yuus Maase" of the People of Guam for this Committee's foresight in approving the entire \$11.4 million appropriations request for the Tumon Bay Development Project in the FY '84 Executive Budget.

This Committee's action provided the Government of Guam with the ability to plan for the entire project and the flexibility to make good management decisions regarding the most efficient and economical budgeting and contractual arrangements.

Mr. Chairman, the FY '85 Executive Budget as submitted by the President provided no funds for capital improvement or economic development for Guam. Ostensibly the rationale for no funding was that over \$20 million in appropriations for Guam CIPs had not been utilized, and that this balance could carry Guam through FY '85.

Mr. Chairman, I have taken the liberty of appending to this testimony a "Drawdown Schedule" for DOI capital improvement projects. The schedule used the Calendar years of 84 and 85 because the \$11.4 was not available to Guam until after the President signed the authorization legislation in December of 1983.

If this committee adopts the Executive Branch rationale, Guam would have no funds for water projects by December of this year. This would mean no water projects during the nine (9) remaining months of FY '85. This would be most unfortunate because, as I will discuss later, Guam is in dire need of more water project funds than we can expect to have this committee approve over the next decade.

By December 1984, all but about one million dollars should have been spent on the development of the Commercial Port facility. Even that remaining balance would have been expended months before the close of the 1985 fiscal year.

The \$1 million for the Northern Health Center would have been exhausted before the end of this fiscal year had HHS not ordered a suspension of the construction commencement pending review of a bidding complaint. The Superior Court of Guam approved our procedure and the construction has commenced and we expect to complete the project within one year.

The \$3.8 million for bridge construction will be expended long before the end of FY '85. We expect to complete the Pago Bridge by July 1984, the Umatac Bridge by December 1984 and the Agana Bridge by July 1985.

The largest appropriated sum is the \$11.4 million this committee had appropriated last summer. I ask this committee to take judicial notice of the fact that though the funds were appropriated by September of 1983, that the authorization was not approved until December, 1983.

I believe that we have made substantial and expedited progress during the last four months. Accompanying this testimony are perspectives of the highway we plan on constructing. The architectural and engineering of the waster and sewer segments of the project were completed within three months, a feat that I challenge any government to match.

Last Thursday, April 26, 1984, the Government of Guam conducted a public hearing on the plans and the response was overwhelmingly positive. We are all convinced that the completion of this project will provide the infrastructure needed to support the additional 2,000 hotel rooms to be constructed. This would double our

occupancy capacity thereby increasing our tourism revenue and decreasing our dependence on federal grants.

The Bid announcements will be published this month, and pursuant to local bidding statutes we should have the \$11.4 million CIP grant encumbered before September, 1984.

Mr. Chairman, Guam is expediting the expenditure of all the DOI capital improvement grants because our economy needs the injection of this money to help us recover from a construction recession that has plagued us for almost six years.

The \$6.5 million for the new prison facility was completely expended by December of 1983. The truth of the matter is that my predecessor signed an \$8.3 million construction contract for the prison facility. Pursuant to that agreement the construction company has completed 98% of the contract. By the time they complete construction in the next few weeks, the Government of Guam would owe the Contractor about \$2 million. Though the facility should be completed by the end of this month, the contractor has the legal right to refuse to turn over the facility until they can be assured of payment.

Mr. Chairman, this brings me to a discussion of the authorization levels recommended by the Subcommittee on Insular Affairs.

HOSPITAL RENOVATIONS

Mr. Chairman, I wholeheartedly concur with the Insular Affairs finding that "Making decent health care facilities accessible to the Americans of the territories has been a priority concern of the Committee ... By any standard of reasonableness, making essential renovations to the Guam Memorial Hospital is a priority dedication of federal resources."

I do hope that this Appropriation Subcommittee will accept the recommendation of the Subcommittee on Insular Affairs to appropriate at least \$5,725,000 for Hospital renovations. This would allow us to complete objective 1(a) & 1(b) of the Implementation Action Plan approved by the Department of Health and Human Services.

I do believe, however, that we would have a bidding advantage if the entire authorized amount of \$9 million is appropriated immediately. The objectives 1(c), 1(d) and 1(e) are equally important and since the balance of the original appropriation is only \$9 million and since almost three (3) years have lapsed since the implementation plan was approved, I believe that the inflationary impact could be absorbed by bidding out the project as a whole rather than in parts.

The decision is yours but I implore you to consider the fact that Guam Memorial Hospital did suffer a loss of accreditation last year; and the Mental Health Division is currently being sued for conditions at the inpatient and outpatient Mental Health facility.

Guam Penitentiary

The Penitentiary is a perennial problem. The capability statement included in the five-year plan I submitted with this testimony, explains the history of this project. The contractor should be completing the buildings agreed to in the original \$8.3 million contract.

Inasmuch as the original appropriation was only \$6.5 million, there is now an outstanding balance of over \$2 million. Though the construction should be completed within the next few weeks, the contractor has threatened to refuse to turn over the building until payment is made or otherwise assured. I did request a reprogramming to address this exigent situation. To date, no approval has been issued.

The situation at the prison today is critical. The total prison population of about 120 is being housed in all the original buildings which were designed to hold less than half that amount. The phase nearing completion will house seventy (70) prisoners safely in individual rooms.

In order to accommodate the balance of 40 plus prisoners, a new modern facility should be constructed.

The purpose for the penitentiary would not be realized if we failed to provide programs to rehabilitate the prisoners. I, therefore, propose to renovate the academic and vocational building. I believe that a new gymnasium should be built to keep the clients busy and provide a constructive physical outlet.

For FY '85, I request another \$6.5 million appropriation to meet all the Prison's current needs, as listed hereafter:

Proposed Construction from the \$4.1 Million Grant Request

A. Administration Building	\$ 453,494
B. House Unit - Male (48 Capacity)	1,278,072
C. Renovation (Academic and Vocational Programs)	775,256
D. Gym/Auditorium	905,799
E. Contract - Administration	290,000
F. Material Testing	34,800
G. Contingency	<u>373,742</u>
 SUBTOTAL	 <u>\$4,111,163</u>
 Overexpenditure	 <u>\$2,300,000</u>
 TOTAL	 \$6,411,163 or \$6.5 million

Water Facilities

Water distribution system should be a basic priority of any community. This committee has generously provided for projects in the past. Further funding is, in the words of the Insular Affairs Subcommittee, "warranted."

My original request to the Insular Affairs Committee listed \$9.6 million for the water infrastructure projects. After I testified to the authorization committees last March, I returned home to discover that the water distribution system for the Southern areas of Guam was grossly inadequate. As a result, we have had to impose 4:00 a.m. - 9:00 a.m. and 4:00 p.m. - 9:00 p.m. water rationing hours in the affected areas. This situation has persisted for too long. It is unconscionable for us to cause segments of our community to suffer the lack of as basic a necessity as water.

I have revised Guam's FY '85 priority of water projects. The appendix on the water system should justify the need for all the projects listed below:

1. Equipping eight (8) deep wells with larger pumps..... \$400,000.00
2. Exploration and Construction of Wells in Southern Guam..... \$700,000.00
3. Barrigada Booster Station..... \$400,000.00
4. Inarajan River Water Treatment Plan..... \$2,000,000.00

5.	Umatac - La Sa Fua River Water Treatment Facility with a capacity of approximately 150 to 200 GPM.....	\$1,300,000.00
6.	Malojloj-Inarajan Water Transmission.....	\$1,840,000.00
7.	Mangilao-Chalan Pago Water Transmission Line.....	\$3,600,000.00
8.	Pago Bay-Togcha Water Transmission Line.....	\$1,520,000.00
9.	Barrigada and Mangilao Reservoir with connecting pipeline.....	\$2,000,000.00
10.	Macheche Water Transmission Line.....	585,000.00
11.	Improvement of Laelae Spring Water Treatment Plant and Transmission Line.....	950,000.00
12.	Development of Agana Spring Wells.....	\$1,000,000.00
	TOTAL.....	\$16,295,000.00

Educational Support

Mr. Chairman, in 1980, Congress passed Public Law 96-374. Section 1204c of this act provides for the sum of \$2,000,000 to be appropriated:

"for each fiscal year ending prior to October 1, 1985 to support the cost of providing post-secondary education programs on Guam for non-resident students from the Trust Territory of the Pacific Islands, the Northern Mariana Islands and American Samoa. Such sums shall be allocated by the Secretary among the educational institutions on Guam providing such programs on the basis of the number of students enrolled from the Trust Territory of the Pacific Islands, the Northern Mariana Islands and American Samoa. Sums authorized under this subsection shall remain available until expended."

The intent of this act was to provide the University of Guam and the Guam Community College with resources which would allow them to continue and enhance the educational and administrative services to these students. To date, the major cost of these programs has been born by the Guamanian taxpayer because none of the \$10 million authorization has been appropriated.

Mr. Chairman, accompanying my testimony are two charts listing the number or percentage of Trust Territory and Northern Marianas students that were enrolled and projected to be enrolled at Guam's two post-secondary institutions, the University of Guam and the Guam Community College. The charts also provide an estimate of the cost attributable to these students. Please note that the cumulative total attributable expenditure for the period FY 1981 - FY 1985 exceeds \$10 million.

The Government of Guam is currently suffering a substantial cash shortfall. We cannot continue to underwrite non-taxpayer expenses for the education of these students. I hope that this Committee will approve the appropriation of the entire amount and direct the Secretary of Interior to allocate the appropriation between the institutions according to verified attributable costs. The authorization is due to expire at the end of the FY 1985 period. To avoid the need for re-authorization legislation, I respectfully request this committee's consideration of an appropriation of the entire amount.

Deficit Elimination

The Deficit Elimination authorization is also nearing its sunset. I am informed that the Congress is currently considering approaches to eliminating the national deficit. I hope that this committee would endorse the Deficit Elimination Plan, prepared by the Government of Guam and approved by the Department of Interior, by recommending the appropriation of the entire amount.

Guam's current cash balance is \$386,940 while our outstanding liabilities is about \$45.7 million. Contractors and vendors have been forced to wait more than one year for payment. The appropriation of the \$37.5 million will assure the timely payment of all outstanding obligations and place the Government of Guam back in the black.

SOUTHERN HIGH SCHOOL

Mr. Chairman, the capability statement on the Southern High School expositis all the technical reasons for the construction of this new high school.

I would like to address one aspect not discussed previously. As you know, President Reagan recently stopped over on Guam. The President's speech emphasized the military presence. Besides his prepared comment about helping to regain peace and working together to protect peace, the President made extensive extemporaneous remarks about the number of military personnel stationed on Guam and the important role they play in our nation's security.

The Department of Defense has, on several occasions during my first and second terms, have made threats to establish Section 6 schools for military dependents. Their position is that the regular tour of duty on Guam is shorter than other ports because of the parental concern that the facilities are not up to par. If we can provide them with adequate facilities, we could attract more good people and have them stay longer thereby enhancing the national security.

Many local students will benefit from the new high school but the principle beneficiary will be the military dependents.

GUAM POWER AUTHORITY

Mr. Chairman, the Insular Affairs Subcommittee makes reference to a restructuring or refinancing of the Guam Power Authority's \$36 million loan from the Federal Financing Bank.

For the record, if this Committee has any jurisdiction over any amendment being considered, I humbly implore your support of the legislation.

The Guam Power Authority is making a good faith effort to meet its obligations. Unfortunately, local legislative interference postponed the implementation of a rate increase I approved fourteen (14) months ago. This has resulted in the Bank of America issuing a Notice of Default.

The Guam Power Authority was not able to make its \$2.6 million interest payment due last December 31, 1983. As a result of the non-payment, the Secretary of Interior withheld a \$3.1 million Section 30 payment. Unless Guam Power Authority can assure the timely payment of the June 30, 1984 installment, Department of Interior has given notice that it will withhold additional Section 30 payments.

As evidenced by the cash balance I provided earlier, we cannot afford to have any money, due us, impounded.

Though the new rates were finally implemented last month, I still believe that a restructuring, refinancing, or reduction of the interest is

imperative to alleviate the ever-increasing burden on the consumer and the negative impact GPA's inability to pay is having on Government of Guam's coffers.

ECONOMIC DEVELOPMENT LOAN FUND

Mr. Chairman, I saved the discussion of the Economic Development Loan Fund for the end, not because it is my last priority, on the contrary economic development or economic rearmament is a cornerstone of my administration's priorities.

Please be informed that I do not cherish coming before any group to respectfully request or urge the approval of an appropriation for one project or another. I am a Chamorro and our people are proud people who pride themselves on being self-sustaining survivors.

My testimony before the Insular Affairs Subcommittee is part of the Congressional Record and I need not repeat it now. Suffice it to say that I am convinced that with a little capitalization seed money and a removal of the federal regulatory and statutory constraints that impede our economic development, Guam can and will regain its position as a self-sustaining commercial center in the Pacific. This was our standing and our role prior to the Spanish American War, and I will work to re-establish that role.

The seed money I referred to can come in the form of an appropriation for the Guam Economic Loan Fund. No funds were appropriated last year because Department of Interior was considering the establishment of a Territorial Development Bank. No further action was taken by Department of Interior.

I urge this committee to consider appropriating the \$3.26 million balance that was authorized by Public Law 95-134.

Mr. Chairman and members of this esteemed Committee, the People of Guam join me in again expressing our sincerest Si Yuus Maase for the attention and assistance you have and hopefully will continue to accord our needs.

UNIVERSITY OF GUAM

ENROLLMENT

Fiscal Year	Enrollment		Local Approp.	Applicable* Funds
	UOG	% Applicable*		
FY 77	6,947	14%	\$5,213,506	729,891
FY 78	6,535	13	6,450,037	838,505
FY 79	5,680	9	7,655,007	688,951
FY 80	5,474	12	7,026,569	843,188
FY 81	5,252	12	9,458,032	1,134,964
FY 82	5,229	18	8,425,077	1,416,174
FY 83	5,763	17	8,341,533	1,418,060
FY 84	6,256	19	9,420,562	1,789,907
FY 85		(17)	(11,733,515)	(1,994,698)
FY 86		(17)	(12,320,190)	(2,094,432)
FY 87		(17)	(12,936,199)	(2,199,154)
FY 88		(17)	(13,583,008)	(2,309,111)
FY 89		(17)	(14,262,158)	(2,424,567)

* "Applicable" refers to students from Commonwealth of the Northern Mariana Islands, Federated States of Micronesia, Palau, Marshalls and American Samoa.

UNIVERSITY OF GUAM

GRADUATES

Commencement Year	Total		Applicable*	
	Undergrad.	Graduate	Undergrad.	Graduate
1980	226	41	19	1
1981	180	48	27	0
1982	203	34	27	0
1983	195	41	20	2
1984 (Anticipated)	252	33	23	1

GUAM COMMUNITY COLLEGE

Fiscal Year	FTE Local Enrollment	Local Appropriation	% Applicable	Cost
FY '82	1,391	\$4,611,361	8	368,909
FY '83	1,152	4,801,417	9	432,128
FY '84	1,338	4,971,038	13	651,456
FY '85	1,445	5,348,121	15	802,218
FY '86	1,565	5,882,933	15	882,440
FY '87	1,690	6,471,226	17	1,100,108
FY '88	1,842	7,118,349	16	1,138,936
FY '89	2,003	7,830,184	15	1,174,528

The table shows the number of Full-Time Equivalent student enrollments at GCC for fiscal years 1982-1989, the total local appropriations for operations for the period, the percentage of students who are from the Trust Territories and/or the Commonwealth of the Northern Mariana Islands and the costs incurred for that category of students. By fiscal year 1988 the percentage of students in that category begins to decline and is expected to level off at fifteen percent (15%) once we reach our maximum enrollment capacity (given the present facilities) of two thousand students FTE. At that point although the percentage of students remains constant, the cost of educating that same percentage is expected to continue to escalate at a relatively constant rate.

DIVISION SCHEDULE SUMMARY
FOR
CALENDAR YEARS 1984 AND 1985

Departments/Agencies	Appropriation	Prior Divisions	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.
Public Utility Agency										
of Genoa										
Water Lines	\$ 1,296,000	\$ 324,000	\$ 498,837 ^{1/2}	\$ 100,000	\$ 200,000	\$ 100,000	\$ 73,163	0	\$ 10,300	\$ 10,000
Water Lines - Borehole	695,657	89,100	-0-	-0-	-0-	-0-	-0-	0	0	0
Water Lines - Yards/Channel	799,343	95,700	-0-	-0-	-0-	-0-	-0-	-0-	5,300	10,000
Equip	1,137,000	145,200	-0-	-0-	-0-	-0-	-0-	-0-	50,000	150,000
Water Lines - Mainboard BIDs										
Subtotal	\$ 3,863,000	\$ 654,000	\$ 498,837	\$ 100,000	\$ 200,000	\$ 100,000	\$ 73,163	-0-	\$ 71,000	\$ 260,000
Port Authority of Genoa										
Board of Repres	\$ 1,485,000	\$ 371,250	-0-	-0-	-0-	-0-	-0-	0	\$ 154,200	-0
Building Utility	1,370,000	330,000	-0-	-0-	-0-	-0-	-0-	-0-	0	137,000
Boat Lifts (11)										
Revenue from Gen A	1,469,000	367,250	-0-	-0-	-0-	-0-	-0-	\$ 367,250 ^{2/2}	-0-	0
Boat Lifts (11)										
Revenue from Gen B	1,656,000	416,000	-0-	-0-	-0-	-0-	-0-	416,000 ^{2/2}	-0-	0
Subtotal	\$ 5,230,000	\$ 1,147,500	-0-	-0-	-0-	-0-	-0-	\$ 783,250	\$ 154,200	\$ 137,000
Dept. of Public Works										
Geological Health Center	\$ 1,000,000	-0-	-0-	-0-	\$ 29,920	\$ 69,872	\$ 69,872	\$ 69,872	\$ 69,872	\$ 71,794
Develop.										
Equip	1,251,395	965,267	-0-	-0-	-0-	349,748	150,669	57,600	35,066	0
Buildg	1,675,000	780,675	-0-	-0-	-0-	-0-	-0-	-0-	-0-	0
Admin	571,655	308,064	-0-	-0-	-0-	-0-	-0-	-0-	-0-	0
Transportation Equip	11,150,000	-0-	767,489 ^{5/1}	-0-	-0-	-0-	-0-	332,511	100,000	850,000
Subtotal	\$ 16,100,000	\$ 2,053,750	\$ 767,489	-0-	\$ 29,920	\$ 349,568	\$ 600,541	\$ 636,983	\$ 184,936	\$ 969,794
10100	\$ 5,871,000	\$ 6,130,250	\$ 3,266,376	\$ 100,000	\$ 279,920	\$ 319,568	\$ 471,004	\$ 1,216,233	\$ 610,178	\$ 1,561,794
10100	\$ 5,871,000	\$ 6,130,250	\$ 3,266,376	\$ 100,000	\$ 279,920	\$ 319,568	\$ 471,004	\$ 1,216,233	\$ 610,178	\$ 1,561,794
10100	\$ 5,871,000	\$ 6,130,250	\$ 3,266,376	\$ 100,000	\$ 279,920	\$ 319,568	\$ 471,004	\$ 1,216,233	\$ 610,178	\$ 1,561,794

- 1/ The amount of \$498,337, is required to cover the current expenditures of the project. Expenditures are being paid from the General Fund. Therefore, the drawdown amount will be needed to reimburse the General Fund.
- 2/ Drawdown amounts are predicated on the assumption that all reprogramming requests pertinent to the Route 11 Reconstruction grants (A&S) will be approved within the second and third quarters of FY 1984 and that usage of the funds will begin on June 1984.
- 3/ Amounts are based on the assumption that construction of the Umatac Bridge will commence in June but actual drawdowns for additional cash advance will start December. This delay in drawdown is the result of available cash onhand from prior cash advances.
- 4/ Drawdown amounts predicated on the assumption that the designs and the construction of the Agana Bridge will commence on June. However, additional drawdowns of the project will probably begin in September.
- 5/ This drawdown is still pending from the Department of Interior and covers architectural and engineering designed costs. Secondly, the amounts for the following months are not shown in the analysis for the grant:

<u>Months</u>	<u>Amounts</u>	<u>Cumulative Amount</u>
	Balance carried forward	\$23,073,000
October 1985	\$ 410,000	23,483,000
November 1985	490,000	23,973,000
December 1985	400,000	24,373,000
January 1986	495,000	24,868,000
February 1986	1,025,000	25,893,000

The above amounts must be included in your overall review of the drawdown summary for balancing purposes.

Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.
100,000 \$	100,000 \$	50,000 \$	15,657									
100,000 \$	100,000 \$	50,000 \$	20,363									
600,000	700,000	150,000	37,000									
5,000,000 \$	5,600,000 \$	7,500,000 \$	96,000									
166,069	0-	166,069	0-	\$ 166,069	0-	\$ 166,069	0-	\$ 295,234	0-	0-	0-	0-
0-	\$ 148,500	0-	\$ 148,500	0-	\$ 148,500	0-	\$ 148,500	0-	\$ 766,000	0-	0-	0-
0-	0-	0-	0-	0-	0-	0-	0-	0-	0-	0-	0-	0-
167,750	0-	367,750	0-	0-	0-	0-	0-	0-	0-	0-	0-	0-
414,000	0-	0-	446,000	0-	0-	0-	0-	0-	0-	0-	0-	0-
0-7,139	\$ 148,500	\$ 166,069	\$ 329,750	\$ 166,069	\$ 148,500	\$ 166,069	\$ 148,500	\$ 295,234	\$ 766,000	0-	0-	0-
69,872	\$ 140,616	\$ 149,616	\$ 99,744	\$ 99,744	\$ 49,872	\$ 29,920	\$ 77,516	0-	0-	0-	0-	0-
0	0-	0-	3,575	125,000	155,000	244,000	117,000	0-	0-	0-	0-	0-
111,716	0-	0-	131,796	0-	0-	0-	0-	0-	0-	0-	0-	0-
5,000,000	4,500,000	6,000,000	650,000	5,000,000	5,000,000	5,000,000	5,500,000	5,600,000	5,500,000	5,600,000	5,600,000	5,600,000
681,648	575,616	599,616	685,115	\$ 726,744	\$ 708,872	\$ 773,920	\$ 689,516	\$ 560,000	\$ 550,000	\$ 560,000	\$ 470,000	\$ 460,000
6,20,007	51,000,116	51,015,605	51,710,865	\$ 890,813	\$ 853,372	\$ 939,989	\$ 810,016	\$ 855,736	\$ 814,000	\$ 560,000	\$ 470,000	\$ 460,000
470,000	514,605,026	\$ 16,700,711	\$ 16,411,576	\$ 17,307,309	\$ 18,155,761	\$ 19,095,750	\$ 19,933,766	\$ 20,789,000	\$ 21,601,000	\$ 22,163,000	\$ 22,631,000	\$ 23,073,000

SUMMARY STATEMENT

Governor BORDALLO. Thank you very much, Senator Johnston, and on behalf of our people from Guam we would like to again thank you for all your support. We know you are a real friend of our territory as are many of your colleagues. We are very appreciative.

So just to highlight what is already in my prepared written testimony, which will be submitted, I would like to just say that my commitment to the people of Guam is that we develop our territory and our people so that we can be real proud Americans and be a good example to our nation out there in the Pacific. Guam is moving along on the basis of my commitment.

If there are times that comments are made in regards to priorities of appropriations—and, of course, these are just the usual common differences that will occur. I know that there were comments in the hearing this morning about this great need for money for the hospital and the prison.

But then, since I have been on board for a little over 1 year, things move and develop, and water is a very serious problem. So I have to also include the need for water at a high priority level, if not higher than, in fact, even the hospital and the prison, because certainly we know we can't sustain life without water.

But at the same time I am not neglectful of a balanced growth approach to any community. We still have to contend with needs for our education. So in the budget submission I did not neglect to include the Southern Guam High School and other kinds of appropriations which are just an absolute necessity.

Nothing in these requests are luxuries. Nothing are meant to provide breach of confidence to our people. The request not only deals with economic infrastructure facilities, but also, you might say, an infrastructure program for the social and human development of our people and territory.

So in order not to take any more time, I would like to first of all introduce, to my left, my Washington liaison officer here in Washington, B.J. Cruz, who is an attorney; the Budget Director, Mrs. Herminia Dierking; the administrator of the Guam Memorial Hospital, Joaquin Camacho; and Joaquin Perez, general manager of the Guam Power Authority.

GUAM MEMORIAL HOSPITAL

So I would like to just ask the administrator of the hospital to speak on behalf of the hospital, which is just a very short statement.

Mr. Camacho.

Mr. CAMACHO. Good morning, Senator.

Back about 6 years ago, by virtue of Public Law 95-134, the U.S. Congress, on August 18, 1978, authorized an additional \$10 million to be appropriated to Guam Memorial Hospital Authority and the Government of Guam.

This authorization was later reiterated by the same lawmaking body through the passage of Public Law 97-357 on October 18, 1982, reauthorizing the appropriation of \$10 million for the renovation and expansion of Guam Memorial Hospital Authority.

In December 1982, Guam Memorial Hospital Authority came out with this long-range institutional plan, which was subsequently transmitted and approved by both the Department of Human Health and Services and the Department of the Interior.

With the approval of this plan, Guam Memorial Hospital was supposed to have fulfilled any and all of the requirements for the appropriation of \$10 million, if not the \$5.2 million as already proposed for fiscal year 1985. It lost its accredited status from the Joint Commission on Accreditation of Hospitals in June 1982, largely because of structural deficiencies.

As a result, its eligibility to participate or to receive reimbursements from Federal programs, specifically medicaid and medicare, is heavily jeopardized unless it regains its accredited status through the rectification of cited physical deficiencies.

To demonstrate the urgent need for the congressional appropriation of the federally authorized grant, Guam Memorial Hospital Authority, pursuant to its autonomous corporation status, approached the local legislature to borrow \$1.8 million to start off the most critical rectification projects of the hospital. However, this is not adequate to perform construction on 57 long-term beds on the fifth floor of the new hospital, to relocate the long-term and skilled nursing facilities at the old Guam Memorial Hospital, which deficiencies violate the major provisions of the life and safety code of the Joint Commission of Hospital Accreditation.

Recently, Guam Memorial Hospital Board of Trustees increased its rate by 12 percent to generate sufficient revenues to cover only the present level of operation and routine maintenance. It has not addressed deferred maintenance needs nor major and necessary betterment of the hospital system.

If the hospital is to generate sufficient funds to cover its fixed costs and capital investments, the board would have to increase its charges by the alarming rate of 52 percent, which no one on the island of Guam can afford, Mr. Chairman.

Thank you so much.

Governor BORDALLO. The next individual for just a very short comment will be Mr. Perez, who is the general manager of the Guam Power Authority.

Mr. Perez.

GUAM POWER AUTHORITY

Mr. PEREZ. Mr. Chairman, I thank you for letting me testify before this committee.

My purpose here is to attempt to justify for the granting of Guam the renegotiation of the FFB loan and quite possibly talk about the power pool agreement.

The Guam Power Authority would like to have the ability to renegotiate the Federal Financing Bank loan of \$36 million to more reasonable terms—what we feel are reasonable terms.

At the same time, we would also like to quite possibly request Congress to open the doors to Guam Power Authority for the renegotiation of the power pool agreement. There have been statements that the power pool agreement is unfair. I have to tend to agree with that. It is unfair, and there are several reasons, and, if necessary, we will provide those reasons.

But my purpose here is to request that this committee recognize our justifications, open these doors for us, and from there let the Guam Power Authority and the Government of Guam prove that it can handle its affairs and that we are able to survive and be self-sufficient.

Thank you, sir.

Governor BORDALLO. So, Senator, in conclusion, from the executive branch's viewpoint, as the Governor of Guam, I would like to say that the administration in Washington's policy of self-help, self-sufficiency, as outlined by Secretary Montoya, is something I philosophically support.

We have been very busy trying to promote Guam in many areas of the Far East. In fact, I met with the president of South Korea 1 week ago—over 1 week ago—where he is very interested in responding to develop tourism with our territory, and we already have something that we have discussed with the chairman of the CAB.

Tomorrow I am speaking to the Chamber of Commerce in Seattle as the guest of honor of the Governor of the State of Washington.

I have traveled a lot, to Taipei, Japan; I spearheaded a conference of our Tourism Development Program in Japan, and, of course, tourism went up by 10 percent in my first year—my first year last year—which represents about a \$40 million gross increase.

Then I authorized that we sell the Guam Memorial Hospital plant. That is a major privatization move. So we got the government out of that business.

So it is a matter of record. I tried to privatize the public market, which I actually created in my first term, but I didn't quite succeed with the legislature. Maybe later on I will.

So where in these areas they are logical for privatization, I aim for privatization. So I would like to submit to this committee that I take a very serious direction providing leadership and direction for our people to carry their fair share of the burden.

The only area in which we still need tremendous help from the National Government are areas that will provide us the capital investment for infrastructure, so it is upon this case that we can build a viable economy and be less dependent on the taxpayers of our fellow citizens here in the United States proper.

So now I would like to say we have made our presentation, and Speaker Gutierrez is also here representing the legislature.

Thank you, Mr. Chairman.

Senator JOHNSTON. Thank you very much, Governor, and we will have some written questions for you which we would appreciate your answers to for the record.

Thank you very much.

PREPARED STATEMENT

It is a pleasure to have you back. I would like to welcome the speaker, Carl Gutierrez, speaker of the Guam Legislature. We will insert your statement in the record.

[The statement follows:]

STATEMENT OF CARL T.C. GUTIERREZ

My name is Carl T.C. Gutierrez, and I thank you members of the House Appropriations Committee for allowing me this opportunity to present my testimony to you on Guam's FY'85 Budget.

I agree with the Governor of Guam that the Territory of Guam is in dire financial straits and is in need of funds for projects to further the social well-being of the people of Guam.

However, recognizing that the United States Government is itself facing a deficit problem, I would like to add emphasis to two areas of primary concern; that being the Guam Memorial Hospital and our correctional facility.

In spite of inheriting a government that was deeply in debt and without cash, we have managed to survive without a break in the delivery of essential government services. Believe me Congressmen, although there have been abuses of Federal funds in the past, as you may have read in the Federal Comptroller's reports, I can assure you that this administration has been held to a minimum of expenditures by the Seventeenth Guam Legislature. And with the suffering that the people of Guam have endured over the last year and a half because of our empty coffers, I can assure you that the next Guam Legislature will be just as watchful as this one has. Our system of checks and balances has significantly improved since the inauguration of Governor Bordallo and the opening of the Seventeenth Guam Legislature.

It has been difficult for us to raise enough revenues to meet the increasing expectations of our people for a standard of living more like that enjoyed by mainland Americans. We have had considerable rate hikes at the Guam Memorial Hospital, the Guam Power Authority and the Guam Telephone Authority, while constantly absorbing an increased cost-of-living due to our import-dependent economy. We simply can't raise the money we need for primary capital improvements.

Congressmen, there is a real and significant danger to the health and safety of the people of Guam and even to the Federal workers in Guam with the loss of accreditation at the Guam Memorial Hospital and the inadequate correctional facilities to handle our prison population. Federal funding for these two projects is fully justified based on the many benefits the United States of America receives from its various uses for the island of Guam.

I believe that the Congress should not feel disgruntled at having to accept a portion of the burden of supporting the continued infrastructural development of Guam. On the contrary, it is a small price to pay considering that the Federal Government controls one-third of our island's most valuable land. With that in mind, you would surely agree it is absolutely impossible for Guam to develop its full economic potential, and therefore, Congress has an obligation to support the continued infrastructural development of the island.

We can no more tax our people to the level necessary to eliminate Federal support, than we could stop the olive drab trucks that careen around the island carrying bombs and who knows what from Apra Harbor to places we are told can neither be confirmed or denied. And yet, the trucks ruin our roads. Now, how can the Federal Government expect us to be economically self-sufficient when we are restricted from developing one-third of our natural resources and have to give way to Federal programs on the remaining two-thirds?

We recognize, however, that the Federal Treasury is thinly stretched these days, particularly in light of a multi-billion budget of the Department of Defense. But surely Congress can find the means to squeeze in these two capital improvement projects that will benefit not only the civilian resident Guamanians, but also Federal employees and dependents living on Guam.

A. \$10 million is needed by the Guam Memorial Hospital so that they can consolidate all hospital services as provided for their institutional ten-year plan, and meet

the accreditation standards of the Joint Commission on the Accreditation of the Hospitals. Due to a lack of these funds, accreditation at Guam Memorial Hospital was lost effective June 2, 1983.

B. And \$9.6 million is needed to complete our new prison. We have a serious problem controlling our prison population. Men have been murdered, and murderers have escaped.

I ask, therefore, that if Congress must choose among our many needs expressed by Governor Bordallo, then primary on that list should be adequate funding for the completion of the reconstruction of Guam Memorial Hospital and the completion of our new correctional facility.

Thank you for allowing me this time to give my testimony.

SUMMARY STATEMENT OF CARL T.C. GUTIERREZ

Mr. GUTIERREZ. Thank you, Senator Johnston. My statement is very short and concise, so I would like to just read it right through.

My name is Carl T.C. Gutierrez, and I am the speaker of the 17th Guam Legislature. I would like to begin by stating that I agree with the Governor of Guam in his statement that the Government of Guam is in dire financial straits and is in need of funds for projects to further the social well-being of the people of Guam, as well as the standard of living for the Federal civil service and military employees and dependents serving on Guam.

However, I recognize that the U.S. Government is itself facing a deficit problem. Therefore, although I support all of the programs submitted by the Governor for your consideration, I would like to add emphasis to two areas of primary concern, that being the Guam Memorial Hospital and our correctional facility.

First, I would like to assure the committee that the Government of Guam cannot possibly afford these projects and, if given the funds, will utilize them efficiently and appropriately.

In spite of inheriting a government that was deeply in debt and without cash, we have managed to survive without a disruption in the delivery of essential government services.

Furthermore, although there have been abuses of Federal funds in the past, as you may have read in the Inspector General's report, I can assure you that this administration has been closely scrutinized by the 17th Guam Legislature and that the suffering that the people of Guam have endured over the last year and a half because of our empty coffers, I can assure you that the 18th Guam Legislature will be just as watchful as the 17th has been.

All in all, Guam's system of checks and balances has improved significantly since the inauguration of Governor Bordallo and the opening of the 17th Guam Legislature.

Again, you should feel more comfortable that the precious Federal dollars you send our way will be wisely utilized.

INABILITY TO FUND INFRASTRUCTURE

As I mentioned earlier, it has been difficult for us to raise enough revenues to meet the increasing expectations of our people for a standard of living more like that enjoyed by mainland Americans. We have had considerable rate hikes with the Guam Memorial Hospital, the Guam Power Authority, and the Guam Telephone Authority, while constantly absorbing an increased cost of living due to our imports-dependent economy.

We simply can't raise the money we need for primary capital improvements.

Senator, there is a real and significant danger to the health and safety of the people on Guam and even the Federal workers on Guam, what with losing accreditation at the Guam Memorial Hospital and the inadequate correctional facilities to handle our prison population. Federal

funding for these two projects is fully justified based on the many benefits the United States of America receives from its various uses for the island of Guam.

Furthermore, I believe that the Congress should not feel disgruntled at having to accept a portion of the burden of supporting the continued infrastructural development of Guam. On the contrary, it is a small price to pay, considering that the Federal Government controls one-third of our island's most valuable land and the best and safest military base in the Pacific.

With that in mind, you would surely agree that it is absolutely impossible for Guam to reach a stage of full economic self-sufficiency. Therefore, we cannot develop the revenues necessary for capital improvement projects, and Congress must assume a share of the obligation for continued infrastructural development.

We can no more tax our people to the level necessary to eliminate Federal support than we can stop the olive drab trucks that lumber around the island carrying bombs and who knows what from Apra Harbor to places we are told can neither be confirmed nor denied. And yet the trucks ruin our roads. Similarly, other Federal military actions burden our infrastructures and natural resources.

To summarize, we recognize that the Federal Treasury is thinly stretched these days, particularly in light of a multibillion dollar budget for the Department of Defense. But surely Congress can find the means to squeeze in these two capital improvement projects that will benefit not only the civilian resident Guamanians but also Federal employees and dependents living on Guam.

As the Governor stated, \$9 million is needed for the Guam Memorial Hospital so that they can consolidate all hospital services as provided for in the institutional 10-year plan and meet the accreditation standard of the Joint Commission on Accreditation of Hospitals.

Due to a lack of these funds, accreditation of the Guam Memorial Hospital was lost effectively June 2, 1983. As the Governor stated, at least a minimum \$5.725 million in support is needed there.

And \$9.6 million is needed to complete our new prison. We have a serious problem controlling our prison population. Men have been murdered in prison, and murderers have escaped. Again, at least a minimum \$6.5 million is needed there.

I ask, therefore, that the Congress must choose among our many needs expressed by Governor Bordallo, and primary on that list should be adequate funding for the completion of the construction of Guam Memorial Hospital and the completion of our new correctional facility.

Thank you, Senator Johnston, for giving me the opportunity to testify today.

Senator JOHNSTON. Thank you very much, Mr. Speaker. It is a pleasure to have you here.

Governor, the questions I referred to earlier will be submitted to you for your response.

AMERICAN SAMOA

STATEMENT OF HON. PETER T. COLEMAN, GOVERNOR, AMERICAN SAMOA

ACCOMPANIED BY:

HON. TUANA'ITAU F. TUIA, SPEAKER OF THE HOUSE OF REPRESENTATIVES

HON. GALEAI P. POUMELE, PRESIDENT OF THE SENATE

MR. TOGO, DIRECTOR OF THE BUDGET

SENATOR O.M. ZANO, CHAIRMAN, SENATE APPROPRIATIONS COMMITTEE

MR. MALIGA, CHAIRMAN OF THE HOUSE APPROPRIATIONS COMMITTEE

INTRODUCTION OF ASSOCIATES

Senator JOHNSTON. Next we want to welcome from American Samoa Governor Peter T. Coleman. He's accompanied by the speaker of the house, Mr. Tuia; president of the senate, Mr. Poumele; the Director of the Budget, Mr. Togo; and also the chairman of the senate appropriations committee, Senator O. M. Zano and Mr. Maliga who is chairman of the house appropriations committee. I hope I got all those names correct or close to it.

PREPARED STATEMENTS

Governor, we are pleased to welcome you and, of course, your written statements will be put into the record. We will be delighted to have you summarize your comments to us.

[The statements follow:]

STATEMENT OF HON. PETER T. COLEMAN

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE:

GREETINGS AND TALOFA FROM THE PEOPLE OF AMERICAN SAMOA. IT IS INDEED AN HONOR AND PRIVILEGE TO APPEAR BEFORE YOU AT THIS HEARING TO SEEK YOUR ASSISTANCE IN FULFILLING THE MANDATES GIVEN AMERICAN SAMOA TOWARDS SELF GOVERNMENT. IN DOING SO, I WISH TO ACKNOWLEDGE WITH RESPECT AND SYMPATHY THE AWESOME RESPONSIBILITY YOUR COMMITTEE MUST AND CONTINUES TO FACE IN BALANCING COMPETING DEMANDS AGAINST THE ULTIMATE NATIONAL OBJECTIVE OF MINIMIZING THE FEDERAL DEFICIT. LET ME ASSURE YOU, MR. CHAIRMAN, THAT AMERICAN SAMOA IS DOING ITS PART BY HOLDING DOWN GOVERNMENT SPENDING AND ASSUMING, WHEREEVER FEASIBLE, ANY NEW INITIATIVES THROUGH LOCAL REVENUES.

FISCAL YEAR 1983 WAS PARTICULARLY DIFFICULT FOR AMERICAN SAMOA FINANCIALLY, AS WAS WITH MANY OTHER STATE AND LOCAL GOVERNMENTS, DUE TO AN UNANTICIPATED LOCAL REVENUE SHORTFALL COUPLED WITH UNEXPECTED TECHNICAL PROBLEMS WITH OUR FINANCIAL MANAGEMENT SYSTEM.

TODAY, I AM PROUD TO SAY THAT, WITH HELP FROM THE UNITED STATES GOVERNMENT, AND THE SACRIFICE AND SUPPORT OF OUR PEOPLE, WE HAVE COME THROUGH OUR TEMPORARY FINANCIAL DIFFICULTIES WITH MINIMAL DISRUPTION TO THE LONG-TERM PLANS WE HAD SET IN MOTION FOR THE TERRITORY AT THE START OF MY ADMINISTRATION. I AM SUBMITTING FOR YOUR RECORDS MY RECENT STATE OF THE TERRITORY ADDRESS WHICH DESCRIBES IN DETAIL PROGRESS TOWARD THOSE LONG-RANGE GOALS.

OUR EFFORTS TO OVERCOME THE TEMPORARY FINANCIAL DIFFICULTIES OF 1983 DEMONSTRATE THE STRENGTH AND RESILIENCE OF OUR PEOPLE. A STRINGENT COST CONTAINMENT PROGRAM RESULTED IN BUDGET SAVINGS OF OVER FIVE MILLION DOLLARS; NINETY PERCENT OF WHICH WAS MADE POSSIBLE BY REDUCED WORKING HOURS AND A GOVERNMENT HIRING FREEZE. ADDITIONALLY, CAPITAL IMPROVEMENT PROJECTS FUNDED FROM ANTICIPATED FY 1983 LOCAL REVENUES HAVE BEEN CANCELED, SAVING ANOTHER EIGHT HUNDRED THOUSAND DOLLARS. OTHER COST CONTAINMENT MEASURES SUCH AS REDUCING INVENTORIES, THE SALE OF SURPLUS PROPERTIES AND

CAREFUL SCRUTINY OF OPERATING EXPENSES CONTRIBUTED IMMENSELY TO BALANCING OUR RESOURCES FOR FISCAL YEAR 1983. MOREOVER, THE RESIDENTS OF THE TERRITORY HAVE ACCEPTED HIGHER UTILITY AND HOSPITAL RATES TO RAISE ADDITIONAL LOCAL REVENUES.

COUPLED WITH OUR BUDGET BALANCING PROGRAM WERE EFFORTS TO IMPROVE OUR CASH FLOW POSITION. I AM HAPPY TO REPORT THAT THE ABOVE MEASURES AND THE \$7.1 MILLION SUPPLEMENTAL APPROPRIATION APPROVED BY CONGRESS DURING FISCAL YEAR 1983 ENDED WITH A POSITIVE CASH BALANCE, TO THE EXTENT THAT WE ARE NOW ABLE TO MEET ALL OF OUR FINANCIAL COMMITMENTS AND RESTORE THE EXCESSIVE CASH DRAWDOWNS FROM DEPARTMENT OF THE INTERIOR CAPITAL IMPROVEMENT PROJECTS.

OUR EXPERIENCE IN 1983 BROUGHT TO LIGHT CRITICAL CONCERNS WHICH ARE NOW BEING ADDRESSED. WE HAVE SOUGHT TECHNICAL ASSISTANCE FROM THE DEPARTMENT OF THE INTERIOR WHICH HAS MADE POSSIBLE THE FOLLOWING:

- 1) ACQUISITION OF COMPUTER SOFTWARE TO IMPROVE OUR FINANCIAL AND MANAGEMENT INFORMATION SYSTEM;
- 2) PROFESSIONAL ASSISTANCE IN THE AREA OF ACCOUNTING AND CASH FLOW MANAGEMENT;
- 3) THE REORGANIZATION OF THE EXECUTIVE BRANCH TO IMPROVE EFFICIENCY, ACHIEVE ECONOMIES OF SCALE AND CONSIDER AREAS FOR PRIVATIZATION;
- 4) STUDIES WHICH ADDRESS ECONOMIC DEVELOPMENT, PUBLIC FINANCES AND TAXATION; AND
- 5) PROFESSIONAL ASSISTANCE TO DEVELOP POLICIES AND PROCEDURES AND AN ORGANIZATIONAL STRUCTURE TO IMPLEMENT THE NEW GOVERNMENT PROCUREMENT ACT.

WE ARE ALSO SEEKING RESOURCES TO BEGIN THE BUILD UP OF RESERVES IN THE LOCALLY ESTABLISHED ECONOMIC STABILIZATION AND EMERGENCY FUND TO ADDRESS TEMPORARY REVENUE SHORTFALL AND EMERGENCIES IN THE FUTURE.

IN 1985 WE WILL CONTINUE TO SEEK ASSISTANCE SO THAT THESE IMPROVEMENTS CAN REACH FRUITION.

THE LESSONS OF 1983 HAVE FORCED US TO REPRIORITIZE OUR FISCAL YEAR 1985 BUDGET REQUEST TO THE DEPARTMENT OF THE INTERIOR AND TO

EMPHASIZE THE COMPLETION OF PROJECTS ALREADY INITIATED INSTEAD OF VENTURING INTO NEW PROGRAMS. THOSE RECEIVING OUR FOREMOST ATTENTION INCLUDE:

- 1) THE MAINTENANCE OF ESSENTIAL GOVERNMENT SERVICES SUCH AS HEALTH, EDUCATION AND THE POLITICAL DEVELOPMENT OF OUR PEOPLE;
- 2) THE COMPLETION OF CAPITAL IMPROVEMENT PROJECTS WHICH WE HAVE ALREADY BEGUN, SUCH AS, ELECTRICAL POWER IMPROVEMENTS, MAINDOCK EXPANSION, THE UPGRADING OF DRY DOCKING FACILITIES, NEW FACILITIES FOR LOCAL FISHERIES AND COMPLETION OF THE AFONO-VATIA ACCESS ROAD; AND FINALLY,
- 3) ECONOMIC DEVELOPMENT PROJECTS SUCH AS TAFUNA INDUSTRIAL PARK EXPANSION, ECONOMIC DEVELOPMENT LOAN FUNDS, IMPROVEMENT OF THE DOWNTOWN ROAD CORRIDOR TO RELIEVE TRAFFIC CONGESTION AND THE RELOCATION OF GOVERNMENT OFFICES TO FREE UP PRIME COMMERCIAL LAND FOR THE DEVELOPMENT OF THE DOWNTOWN AREA.

THE SUCCESSFUL MAINTENANCE OF EXISTING GOVERNMENT SERVICES AND THE COMPLETION OF THESE ESSENTIAL PROJECTS WILL MEAN:

- 1) RESTORING OUR ORIGINAL REQUEST FOR OPERATIONS TO \$23.8 MILLION AS OPPOSED TO THE \$20.4 MILLION IN THE PRESIDENT'S BUDGET FOR 1985;
- 2) 14.1 MILLION IN FUNDS FOR CONSTRUCTION AS OPPOSED TO THE \$1.6 MILLION CURRENTLY PLANNED IN THE PRESIDENT'S BUDGET; AND
- 3) AN ADDITIONAL \$1,200,000 FOR SPECIAL PROGRAMS.

THE PRESIDENT'S CURRENT BUDGET PROPOSAL FOR 1985 FALLS \$24,420,000 SHORT OF OUR PROJECTED NEED. IT REFLECTS NO INCREASE IN AMOUNTS BUDGETED FOR OPERATIONS IN 1984 AND A 67% DECREASE IN FUNDING FOR CONSTRUCTION OVER THE PREVIOUS YEAR. THE CURRENT PROPOSAL OF \$22,072,000 REFLECTS AN OVERALL DECREASE OF 13% FROM THE 1984 BUDGET, A FIGURE WHICH WILL MAKE EVEN OUR MAINTENANCE AND STABILIZATION EFFORTS DIFFICULT TO COMPLETE.

THE BUDGET REQUEST BEFORE YOU HAS BEEN SUBJECTED TO INTENSIVE SCRUTINY BY OUR LOCAL LEGISLATURE, THE DEPARTMENT OF THE INTERIOR, THE OFFICE OF MANAGEMENT AND BUDGET AND FINALLY THE PRESIDENT'S BUDGET PROPOSAL TO THE UNITED STATES CONGRESS. THE REQUEST FOR OPERATIONS HAS BEEN KEPT TO AN ABSOLUTE MINIMUM TO THE EXTENT THAT IT ONLY SUPPORTS CURRENT SERVICE LEVELS WITHOUT ANY NEW INITIATIVES. IN FACT, BASED ON 1978 DOLLARS AND ASSUMING AN AVERAGE ANNUAL INFLATION RATE OF 5%, THE \$20.4 MILLION CONTAINED IN THE PRESIDENT'S BUDGET FOR OPERATIONS IS 12% LESS THAN THE \$22.9 MILLION LEVEL WHERE IT OUGHT TO BE. TABLE I AND TABLE II DEPICT THE EFFECT OF THE VARIOUS INFLATION RATES ASSUMED AS WELL AS THE ANNUAL INCREASES IN THE CONSUMER PRICE INDEX FOR AMERICAN SAMOA USING FISCAL YEAR 1978 AS THE BASE YEAR.

GIVEN THE ABOVE JUSTIFICATION AND IN RECOGNITION OF YOUR EFFORTS TO REDUCE THE FEDERAL DEFICIT, WE ONLY REQUEST THAT AMERICAN SAMOA BE GRANTED ITS ORIGINAL REQUEST OF \$23.8 MILLION FOR OPERATIONS OR AT LEAST \$22.9 MILLION BASED ON AN ASSUMED RATE OF INFLATION OF 5%. LET ME RE-EMPHASIZE THAT THIS IS SIMPLY TO MAINTAIN CURRENT SERVICE LEVELS WITHOUT ANY NEW INITIATIVES AND WE APPRECIATE YOUR SUPPORT IN THIS AREA.

THE CAPITAL IMPROVEMENT PROGRAMS WE HAVE SOUGHT IN THE PAST AND APPROVED BY YOUR COMMITTEE WERE INTENDED TO SATISFY THE BASIC NEEDS OF OUR PEOPLE AND TO EXPAND THE TERRITORY'S POTENTIAL CAPACITY FOR REVENUE GENERATION. TODAY, I AM HAPPY TO REPORT THAT IMPROVEMENTS TO OUR POWER GENERATION EQUIPMENT IS 70% COMPLETE. THE \$4 MILLION AUTHORIZED IN FISCAL YEAR 1984 TO BUY NEW GAS TURBINE ENGINES AND THE \$1,672,000 PROPOSED IN THE PRESIDENT'S BUDGET TO ADD A HEAT RECOVERY SYSTEM SHOULD COMPLETE THE POWER IMPROVEMENT PROGRAM WE HAVE SET FOR THE TERRITORY FOR THE NEXT FIVE TO TEN YEARS.

ON APRIL 14, 1984, WE DEDICATED THE ADDITION OF 1,116 FEET OF NEW DOCK SPACE TO PAGO PAGO HARBOR WHICH WAS FUNDED FOR \$5.5 MILLION APPROVED IN 1981. EXPANSION OF THE DRY DOCK FACILITIES TO SERVICE THE PURSE SEINER VESSELS IS SCHEDULED FOR COMPLETION BY SEPTEMBER 1984. BOTH PROJECTS WILL EARN REVENUES FOR THE GOVERNMENT

PROVIDED ADDITIONAL RESOURCES ARE GRANTED TO ADD THE NECESSARY SUPPORT FACILITIES. SPECIFICALLY, WE ARE LOOKING AT \$3.3 MILLION FOR THE DRYDOCK AND \$2.5 MILLION FOR THE MAIN DOCK. OTHER CAPITAL IMPROVEMENT PROJECTS LISTED WILL ALSO CONTRIBUTE TO REVENUE GENERATION AND WE HOPE YOU WILL CONSIDER THEM FAVORABLY.

THE SHORTAGE OF VENTURE CAPITAL HAS ALWAYS BEEN A PROBLEM IN AMERICAN SAMOA. WHILE WE WOULD HAVE PREFERRED A ONE - TIME INJECTION OF \$4 TO \$10 MILLION FOR THE ECONOMIC DEVELOPMENT LOAN FUND TO BOOST OUR PRIVATE SECTOR, WE HAVE RELUCTANTLY ACCEPTED A MODEST REQUEST OF \$1 MILLION FOR THIS PURPOSE. WE HAVE ATTEMPTED TO WORK WITH OTHER FEDERAL AGENCIES SUCH AS EDA, SPA, OMBE, UDAG, HUD, etc. BUT TO NO AVAIL.

AS YOU KNOW, MR. CHAIRMAN, IN ADDITION TO OUR REGULAR INTERIOR GRANTS, AMERICAN SAMOA ALSO RELIES ON PROGRAM FUNDING FROM A NUMBER OF OTHER FEDERAL AGENCIES. JUST AS WE ARE EXPERIENCING CUTBACKS IN INTERIOR FUNDS, SO IS IT ALSO TRUE FOR MANY OF THESE OTHER PROGRAMS. JUST TO CITE ONE IMPORTANT EXAMPLE, THE U.S. DEPARTMENT OF ENERGY HAS SUBMITTED NO BUDGET FOR FY 1985 FOR THE ENERGY EXTENSION SERVICE PROGRAM AND THE STATE ENERGY CONSERVATION PROGRAM. IF THESE PROGRAMS ARE NOT FUNDED, OUR TERRITORIAL ENERGY OFFICE WILL BE FORCED TO LAY OFF 12 PEOPLE, VIRTUALLY WIPING OUT OUR WHOLE PROGRAM.

I WILL NOT TAKE THE COMMITTEE'S TIME TO LIST OTHER PROGRAMS BUT I WOULD URGE THIS COMMITTEE TO MAKE A SURVEY OF THE ENTIRE PROPOSED FEDERAL BUDGET TO SEE WHAT THE TOTAL EFFECTS OR PROPOSED CUTBACKS WILL BE ON ALL THE TERRITORIES FOR THE GRANT PROGRAMS FROM ALL THE AGENCIES.

ALSO, AS YOU KNOW, MR. CHAIRMAN, AMERICAN SAMOA, LIKE THE OTHER TERRITORIES, OFTENTIMES IS UNINTENTIONALLY OMITTED FROM FEDERAL PROGRAMS. A GOOD EXAMPLE IS THE URBAN DEVELOPMENT ACTION GRANT PROGRAM. WE ARE THE ONLY JURISDICTION IN THE COUNTRY NOT ELIGIBLE FOR IT. WE URGE THE CONGRESS TO TAKE THE ACTION NECESSARY TO CORRECT THIS SITUATION.

FINALLY, MR. CHAIRMAN, I WOULD LIKE TO SPEAK TO THE INSPECTOR GENERAL (IG) PROGRAM. WE DO NOT HAVE THE LUXURY OF LARGE STAFFS IN SAMOA. SO IT IS OUR TOP OFFICIALS WHO MUST TAKE TIME AWAY FROM

MANAGING THEIR PROGRAMS TO SPEND TIME RESPONDING TO INSPECTOR GENERAL REPORTS. IN ORDER TO MORE EFFECTIVELY RESPOND TO THE IG, WE WILL BE ASKING FOR ADDITIONAL FUNDS THROUGH DOI TECHNICAL ASSISTANCE TO ESTABLISH AN OFFICE OF OVERSIGHT TO RESOLVE PROGRAMS THE IG HAS IDENTIFIED AND TO RESPOND TO HIS AUDITS.

ALTHOUGH WE HAVE NOT SPECIFICALLY BUDGETED FOR THIS PURPOSE, IT IS MY SINCERE WISH THAT THIS COMMITTEE WOULD LOOK FAVORABLY UPON THE CREATION OF A "SCOOP" JACKSON FEDERAL AND TERRITORIAL GOVERNMENT CENTER ON AMERICAN SAMOA TO CONSOLIDATE ALL OF THE GOVERNMENT AGENCIES UNDER ONE ROOF FOR THE CONVENIENCE OF THE PUBLIC. AS IT STANDS NOW, GOVERNMENT AGENCIES ARE SCATTERED THROUGHOUT PRIME COMMERCIAL PROPERTIES WHICH IMPEDES ECONOMIC DEVELOPMENT AND MAKES THE COORDINATION AND DELIVERY OF PUBLIC SERVICE AWKWARD AND OFTEN TIMES EXPENSIVE. SEED MONEY TO BEGIN THE PLANNING AND DESIGN TASKS FOR THE PROJECT WERE PROVIDED BY LOCAL FUNDS IN THE EARLY 1980's. THESE TASKS ARE ESTIMATED TO BE 70% COMPLETE AND FUNDING IS NEEDED TO FINISH THE REMAINING 30% AND PERHAPS BEGIN THE FIRST PHASE OF CONSTRUCTION. I BELIEVE SUCH A GESTURE HONORING A GOOD FRIEND OF ALL AMERICAN SAMOANS IS A TRIBUTE TO HIS YEARS OF DEDICATED SERVICE.

IN CLOSING, I WOULD LIKE TO TAKE THIS OPPORTUNITY TO THANK THE CONGRESS AND THE MEMBERS OF THIS COMMITTEE FOR THEIR CONTINUED SUPPORT. THE GOVERNMENT OF AMERICAN SAMOA WILL CONTINUE TO DO ITS PART IN OUR JOURNEY TOWARD SELF-GOVERNMENT AND THE IMPROVEMENT IN THE STANDARD OF LIVING FOR OUR PEOPLE.

Department of Interior Funds
Authorized for
American Samoa

<u>Year</u>	<u>Operations</u>	<u>Special</u>	<u>CIP</u>	<u>TOTAL</u>
1978	16,252,000	-0-	4,353,000	20,605,000
1979	16,056,000	2,100,000	3,365,000	21,521,000
1980	17,309,000	-0-	-0-	17,309,000
1981	17,600,000	500,000	7,650,000	25,750,000
1982	17,664,000	384,000	7,099,000	25,147,000
1983	19,403,000	500,000	3,937,000	(1) 23,840,000
1984	20,400,000	-0-	5,000,000	25,400,000
<u>TOTALS</u>	<u>124,684,000</u>	<u>3,484,000</u>	<u>31,404,000</u>	<u>159,572,000</u>
Percentages	<u>78%</u>	<u>2%</u>	<u>20%</u>	<u>100%</u>

(1) Excludes \$7.1 million special supplemental appropriation for FY 1983.

(In \$000's)

<u>Year</u>	<u>Approved for Operations</u>	<u>Inflation factors</u>		
		<u>5%</u>	<u>7%</u>	<u>10%</u>
1978	16,252			
1979	16,056	17,065	17,390	17,877
1980	17,309	17,918	18,607	19,665
1981	17,600	18,814	19,909	21,632
1982	17,664	19,755	21,303	23,795
1983	19,403	20,743	22,794	26,175
1984	20,400	21,780	24,357	28,793
1985	20,400	22,869	26,062	31,672

Based on 1978 dollars, the proposed FY 1985 budget for operations is deficient by these percentages

-12%

-28%

-55%

<u>Year</u>	<u>Approved for Operations</u>	<u>American Samoa's C.P.I.</u>	<u>Projected Budget</u>	<u>Deficiency</u>
1978	16,252 1)	-0-	-0-	-0-
1979	16,056	17.6%	19,112	- 3,056
1980	17,309	16.9%	22,342	- 5,033
1981	17,600	8.3%	24,196	- 6,596
1982	17,664	6.0%	25,648	- 7,984
1983	19,403	7.3% 2)	27,520	- 8,117
1984	20,400	6.8% 2)	29,391	- 8,991
1985	20,400	6.3% 2)	31,243	-10,843

- Note: 1) Used as the base year for these calculations
 2) Projected CPI increases per Developing Planning Office

STATE OF THE TERRITORY ADDRESS DELIVERED BY THE HONORABLE PETER TALI COLEMAN, GOVERNOR OF AMERICAN SAMOA TO THE LEGISLATURE OF AMERICAN SAMOA—JANUARY 16, 1984

MR. PRESIDENT, MR. SPEAKER, MEMBERS OF THE FONU, MEMBERS OF THE CABINET, MEMBERS OF THE HIGH COURT, LT. GOVERNOR, GUESTS, AND MY FELLOW AMERICAN SAMOANS.

AS I STAND HERE BEFORE YOU TODAY, THE STATE OF THE TERRITORY IS GOOD.

WE ARE AT PEACE

WE ARE STABLE

WE ARE DEMOCRATIC

WE ARE FREE, AND

WE ARE INDEPENDENT

TO ME, TO BE INDEPENDENT IS TO HAVE THE ABILITY TO MAKE ONE'S OWN DECISIONS, TO GUIDE ONE'S OWN DESTINY AND TO BE ABLE TO SURVIVE WITHOUT OUTSIDE ASSISTANCE.

AND IF YOU ARE WILLING TO ACCEPT THOSE CRITERIA, I DOUBT THAT ANYONE IN THIS ROOM WOULD DISAGREE THAT THE STRENGTH OF OUR CULTURE, THE RESILIENCY OF OUR PEOPLE AND THE BLESSINGS OF GOD TO HAVE CHOSEN THIS LAND FOR OUR HOME HAVE MADE IT POSSIBLE FOR US TO BE INDEPENDENT WHILE ENJOYING THE BENEFITS OF POLITICAL AFFILIATION WITH THE GREATEST NATION ON THE FACE OF THIS EARTH.

OUR POLITICAL DEVELOPMENT HAS EVOLVED GRADUALLY OVER THE PAST 83 YEARS, CULMINATING IN THE ELECTED GOVERNORSHIP JUST A LITTLE OVER SIX YEARS AGO.

THREE TIMES OUR PEOPLE VOTED ON THIS QUESTION AND IN THE END APPROVED IT, ALTHOUGH MANY HAD SERIOUS DOUBTS WE COULD GOVERN OURSELVES. HOW IRONIC THAT IS WHEN YOU CONSIDER THAT OUR BROTHERS AND SISTERS IN WESTERN SAMOA JUST A FEW MILES AWAY HAVE THE OLDEST INDEPENDENT GOVERNMENT IN THE ENTIRE PACIFIC BASIN.

TO THOSE, IF ANY, WHO STILL HAVE DOUBTS, ASK YOURSELVES IF YOU WERE BETTER OFF SIX YEARS AGO THAN YOU ARE TODAY?

SIX YEARS AGO, IT WAS FEARED THAT A LOCAL ADMINISTRATION WOULD FAVOR CERTAIN FAMILIES OR COUNTIES OR DISTRICTS AT THE EXPENSE OF OTHERS.

SIX YEARS HAVE PROVEN THEM WRONG.

SIX YEARS AGO, IT WAS ARGUED THAT A SAMOAN GOVERNOR WOULD NOT HAVE THE INFLUENCE NECESSARY IN WASHINGTON TO MAINTAIN THE LEVELS OF FUNDING REQUIRED FOR US TO CONTINUE TO DEVELOP.

SIX YEARS HAVE PROVEN THEM WRONG.

SIX YEARS AGO, IT WAS BELIEVED THAT WE DID NOT HAVE THE BASIC SENSE OF PURPOSE, SELF-DISCIPLINE OR VISION OF THE FUTURE DIRECTION IN WHICH WE ARE HEADING TO MAKE SELF-GOVERNMENT WORK.

SIX YEARS HAVE PROVEN THEM WRONG.

AND OUR QUALITY OF LIFE HAS IMPROVED DRAMATICALLY DURING THAT PERIOD.

SIX YEARS AGO, LENGTHY POWER OUTAGES WERE A WAY OF LIFE.

TODAY, THEY ARE RARE. TOMORROW, THEY WILL BE ALMOST UNHEARD OF. OUR POWER AUTHORITY:

HAS MADE GREAT STRIDES IN PREVENTIVE MAINTENANCE, IS CONSTANTLY OVERHAULING OUR CURRENT EQUIPMENT AND WILL BE BRINGING NEW EQUIPMENT ON LINE OVER THE NEXT FEW YEARS TO ALLEVIATE OUR PROBLEMS ONCE AND FOR ALL.

AT THE SAME TIME, OUR TERRITORIAL ENERGY OFFICE WHICH, ACCORDING TO THE EAST-WEST CENTER HAS A LARGER STAFF THAN ANY OTHER PACIFIC GOVERNMENT, IS KEEPING ABREAST OF AND WORKING WITH ALL THE LATEST TECHNOLOGIES AVAILABLE SO THAT WE CAN ULTIMATELY REDUCE

SIGNIFICANTLY, IF NOT ALTOGETHER ELIMINATE, OUR DEPENDENCE ON COSTLY OUTSIDE FUEL, REDUCING THE COST TO THE PEOPLE.

SIX YEARS AGO, IT WAS NEARLY IMPOSSIBLE TO MAKE A TELEPHONE CALL OFF THIS ISLAND AND ALMOST AS HARD TO GET THROUGH TO ANYONE LOCALLY.

TODAY, ALL THE PEOPLE OF AMERICAN SAMOA INCLUDING MANU'A HAVE RELIABLE TELEPHONE SERVICE AND CAN PICK UP THE PHONE AND DIRECTLY DIAL ANYWHERE IN THE WORLD. THANKS TO THE MIRACLE OF SATELLITE TELEPHONE SERVICE, WE ARE NOW BETTER ABLE TO MEET FEDERAL DEADLINES FOR GRANT APPLICATIONS AND CONDUCT OTHER WRITTEN BUSINESS INSTANTANEOUSLY WITH WASHINGTON THROUGH A SPECIAL TELECOPYING MACHINE IN MY OFFICE LINKED TO OUR WASHINGTON OFFICE.

SIX YEARS AGO, IF YOU WANTED NEWS FROM THE OUTSIDE WORLD, YOU HAD TO READ IT FROM THE TELETYPE MACHINE AT THE HOTEL, READ SUMMARIES IN THE DAILY BULLETIN OR, CONSIDERABLY LESS TIMELY, WAIT FOR THE WEEKLY LOCAL NEWSPAPER.

AGAIN, THROUGH THE MIRACLE OF THE SATELLITE, WE HAVE BEEN ABLE TO BROADCAST LIVE EVENTS DIRECTLY TO YOUR HOMES FROM THOUSANDS OF MILES AWAY.

EVEN YOUR REGULAR EVENING ENTERTAINMENT COMES FASTER. WE NOW TAPE PROGRAMS IN OUR HAWAII OFFICE BY AGREEMENT WITH THE HONOLULU TV STATIONS. I HAVE LEARNED THAT AT LEAST TWO OF THE

NETWORKS ARE CONTEMPLATING SATELLITE TRANSMISSION OF THEIR PROGRAMMING IN HAWAII IN THE NEAR FUTURE. THIS MEANS WE WILL BE ABLE TO WATCH THOSE PROGRAMS ONLY TWO OR THREE DAYS AFTER THEY ARE ORIGINALLY BROADCAST FROM NEW YORK.

AND I AM PLEASED TO ANNOUNCE THAT YOU WILL BE ABLE TO WATCH THE LOS ANGELES RAIDERS ON YOUR OWN TV LIVE THIS SUNDAY WHEN THEY PLAY THE WASHINGTON REDSKINS IN THE SUPERBOWL.

SIX YEARS AGO, UNCERTAINTY ABOUT THE PRICE OF GASOLINE AND OTHER FUEL OILS OR THE RELIABILITY OF SUPPLY WAS A WAY OF LIFE, GASOLINE LINES AND RATIONING WERE VIVID MEMORIES.

TODAY, THAT IS NO LONGER TRUE. THIS ADMINISTRATION LAST YEAR CONCLUDED EXTENSIVE NEGOTIATIONS AND I SIGNED AN AGREEMENT WITH PACIFIC RESOURCES, INC. THIS AGREEMENT GUARANTEES OUR SUPPLY AND PROVIDES US WITH PRICES SIGNIFICANTLY LOWER THAN ANYWHERE ELSE IN THE REGION. THE PRICE OF GASOLINE IN AMERICAN SAMOA, FOR EXAMPLE, IS \$1.20 A GALLON, WHILE THE AVERAGE FOR THE REST OF THE REGION IS OVER TWICE AS MUCH.

SIX YEARS AGO, AS WE LOOKED AHEAD, THERE WAS UNCERTAINTY OVER THE FUTURE OF OUR TUNA CANNERIES, THE LIFEblood OF OUR PRIVATE ECONOMY. THE TAX EXEMPTIONS HAD EXPIRED AND TOUGH NEGOTIATIONS WERE NECESSARY TO ENSURE ADEQUATE EMPLOYMENT BENEFITS TO THE PEOPLE, REVENUE BENEFITS TO THE GOVERNMENT AND FAIR PROFIT BENEFITS TO THE

COMPANIES. IF WE FAILED, WE WOULD HAVE BEEN FACED WITH THE POTENTIAL CLOSURE OF THE CANNERIES AND THE DESTRUCTION OF OUR ECONOMY.

SIX YEARS AGO, SOME BELIEVED THAT A LOCAL ADMINISTRATION WOULD NOT BE TOUGH ENOUGH OR SKILLED ENOUGH TO NEGOTIATE NEW AGREEMENTS TO OUR ADVANTAGE.

THOSE WHO DOUBTED WERE WRONG. DESPITE THE SEVERITY OF OUR FINANCIAL SITUATION IN 1983, NEVER ONCE WAS THOUGHT GIVEN TO REACHING QUICK AGREEMENT FOR MAXIMUM SHORT TERM DOLLAR GAIN TO EASE OUR SHORTFALL PROBLEM. RATHER, MY NEGOTIATORS WERE INSTRUCTED TO CONCLUDE AN AGREEMENT THAT WOULD BEST BENEFIT ALL PARTIES IN THE LONG RUN WITHOUT REGARD TO OUR IMMEDIATE CASH FLOW NEEDS. AND DURING SEVERAL STAGES, I PERSONALLY PARTICIPATED IN THE NEGOTIATIONS.

AS A RESULT, LAST YEAR I SIGNED AGREEMENTS WITH BOTH CANNERIES WHICH PROVIDES A NEW TEN-YEAR EXEMPTION PERIOD AND, FOR THE FIRST TIME, GIVEN US TAX REVENUES FROM PRODUCTION ABOVE THE BASE TONNAGE LEVELS. THE CANNERIES HAVE ALSO COMMITTED TO MAJOR EXPANSION WHICH WE FORECAST WILL ULTIMATELY PROVIDE AT LEAST 500 NEW JOBS FOR OUR PEOPLE.

WE HAVE ALSO STIFFENED OUR RESOLVE TO DIVERSIFY OUR ECONOMY SO THAT FUTURE ADMINISTRATIONS WILL NEVER BE HELD HOSTAGE TO A SINGLE INDUSTRY, AS COULD HAVE HAPPENED LAST YEAR TO A LESS SKILLED NEGOTIATING TEAM DEALING WITH LESS COMMITTED COMPANIES.

ONE OF OUR HIGHEST PRIORITIES IN ECONOMIC DEVELOPMENT CONTINUES TO BE THE EXPANSION OF THE TAFUNA INDUSTRIAL PARK.

SIXTEEN COMPANIES CURRENTLY OCCUPY THE PARK, PROVIDING 200 JOBS.

THREE OTHER LEASES ARE NOW BEING PROCESSED.

TWO MANUFACTURING AND PROCESSING COMPANIES INVOLVING OUTSIDE INVESTMENT HAVE SUBMITTED APPLICATIONS FOR PARK SITES AND WOULD BRING AT LEAST 200 ADDITIONAL JOBS FOR LOCAL RESIDENTS.

WITH THE INCREASING NUMBER OF BUSINESSES REQUESTING SPACE AT THE INDUSTRIAL PARK, WE NOW HAVE SUBMITTED A GRANT APPLICATION TO EDA TO DEVELOP 10 ADDITIONAL ACRES.

AND WE LOOK FOR EVEN MORE INTEREST FROM COMPANIES IN THE FUTURE. ON OUR BEHALF AND ON BEHALF OF THE GOVERNORS OF GUAM AND THE NORTHERN MARIANAS, THE INTERIOR DEPARTMENT WAS ABLE TO GET WRITTEN INTO THE CARIBBEAN BASIN INITIATIVE ENACTED BY CONGRESS LAST YEAR, A PROVISION WHICH PERMITS GOODS MANUFACTURED ABROAD TO ENTER THE U.S. DUTY FREE NOW WITH ONLY 30% OF THE VALUE OF THE MATERIAL OR LABOR ADDED IN AMERICAN SAMOA OR THE OTHER TERRITORIES.

THE PACIFIC BASIN DEVELOPMENT COUNCIL, TO WHICH AMERICAN SAMOA BELONGS, AND WHICH I CHAIRED THE PAST TWO YEARS, IS NEGOTIATING AN AGREEMENT WITH SEARS WORLD TRADE TO THOROUGHLY EXAMINE WHAT INDUSTRIES WE CAN ATTRACT UNDER THIS SO-CALLED HEAD-

NOTE 3A PROGRAM, WHAT ADDITIONAL INCENTIVES WE MIGHT NEED TO GET THEM TO LOCATE HERE, AND HOW TO MARKET OURSELVES AND GO AFTER THEM. THE OTHER PACIFIC GOVERNORS AND I WILL BE REVIEWING THIS PROPOSAL WHEN WE MEET IN WASHINGTON IN LATE FEBRUARY.

AT THE SAME TIME, WE ARE CONTINUING TO IMPROVE OUR BASIC INFRASTRUCTURE TO MEET OUR SHORT AND LONG TERM NEEDS. AS OUR INDUSTRIAL AND SERVICE SECTORS GROW, WE WILL HAVE SUFFICIENT POWER TO MEET THEIR NEEDS. AS THE CANNERIES EXPAND, OUR NEW BURTON SHIP REPAIR FACILITY WILL BE READY TO SERVICE THE PURSE SEINER FLEETS WHICH HAVE GROWN FROM 5 IN 1979 TO 30 LAST YEAR AND COULD BE AS MANY AS 50 TO 60 THIS YEAR. ALSO, OUR OWN LOCAL FISHING FLEET HAS, ITSELF, NEARLY DOUBLED IN THE PAST TWO YEARS.

AND WE WILL SOON BE DEDICATING THE NEW DOCK WE HAVE BEEN WATCHING UNDER CONSTRUCTION. THE SHIP REPAIR FACILITY, THE DOCK AND THE NEW WAREHOUSE, AND REFRIGERATION UNITS WE HAVE PLANNED ARE THE FOUNDATION FOR THE NUMBER ONE LONG TERM ECONOMIC GOAL OF THIS ADMINISTRATION, THAT IS TO MAKE AMERICAN SAMOA THE COMMERCIAL HUB OF THE SOUTH PACIFIC THROUGH THE PROMOTION OF OUR PORT AS THE MAJOR CENTER FOR THE TRANSSHIPMENT OF GOODS AND MERCHANDISE IN THE REGION.

OUR SEAPORT WILL SOON BE READY. OUR AIRPORT MASTER PLAN IS COMPLETED AND WE HAVE AWARDED THE CONTRACT FOR MAJOR REHABILITATION OF THE OLD RUNWAY. THROUGH SPIA, WHICH STARTED OUT HERE AS A

SMALL INTER-ISLAND AIRLINE ONLY A DECADE AGO, WE CAN NOW TRAVEL FROM TONGA IN THE SOUTH TO ALASKA AND CANADA IN THE NORTH, FROM TAHITI IN THE EAST TO GUAM AND PORT MORESBY IN THE WEST.

I HAVE COMMISSIONED AN INTEGRATED STUDY BY AN OUTSIDE FIRM TO EVALUATE ALL THE ELEMENTS OF OUR PROGRAM TO BECOME THE REGION'S TRANSSHIPMENT CENTER, TO ENSURE THAT WE ARE ON THE RIGHT TIME TABLE, THAT ALL THE PIECES WILL BE IN PLACE AT THE RIGHT TIME AND THAT WE ARE NOT MISSING ANY MAJOR ELEMENTS IN OUR MASTER PLAN. THIS STUDY WILL BE COMPLETED BY JULY 1 SO THAT, SHOULD THERE BE ANY LEGISLATIVE ACTION NECESSARY, THIS FONDO CAN CONSIDER IT IN ITS FOURTH REGULAR SESSION.

AT THE SAME TIME, I WILL BE MEETING SHORTLY WITH THE FONDO LEADERSHIP TO DISCUSS THE POSSIBILITY OF A MAJOR OVERHAUL OF OUR TAX SYSTEM. AS IT STANDS NOW, WE FOLLOW THE U.S. INCOME TAX SYSTEM AND APPLY IT HERE LOCALLY. BUT I HAVE BECOME INCREASINGLY CONCERNED IN RECENT YEARS THAT THE COMPLEXITY OF THE U.S. TAX LAWS NOT ONLY MAKES COMPLIANCE AND ENFORCEMENT MORE DIFFICULT BUT ALSO MAY BE LARGELY INAPPROPRIATE TO OUR NEEDS AND CONTAIN DISINCENTIVES FOR PRIVATE SECTOR DEVELOPMENT AND EXPANSION.

I HAVE DWELT AT LENGTH WITH ECONOMIC MATTERS, BUT THAT IS ONLY PROPER, FOR I BELIEVE THAT ONLY WITH ECONOMIC SELF-RELIANCE CAN WE BE ASSURED THAT WE WILL BE ABLE TO PROGRESS SOCIALLY AND POLITICALLY WHILE PRESERVING OUR CULTURAL HERITAGE. ECONOMIC

DEVELOPMENT BROADENS OUR TAX BASE AND ENABLES US TO INCREASE OUR TAX REVENUES.

IT IS ONLY WITH THESE REVENUES THAT WE CAN DO MORE TO IMPROVE THE EDUCATION, HEALTH AND SOCIAL WELL-BEING OUR OUR CITIZENS.

WE HAVE DONE WELL IN EDUCATION.

IN THE PAST SIX YEARS, WE HAD ADDED TO OUR FACULTY AND SCHOOL ADMINISTRATION 82 MORE BACHELORS DEGREES, 62 NEW MASTERS DEGREES AND 12 PHDS. ALMOST HALF OF OUR TEACHERS AND ADMINISTRATORS NOW HOLD BA DEGREES OR HIGHER, 11% MORE THAN SIX YEARS AGO.

OUR COMMUNITY COLLEGE HAS IMPROVED TO THE POINT WHERE NOW MORE THAN HALF OF THE 1982 GRADUATES ARE CONTINUING OR PREPARING TO CONTINUE THEIR EDUCATION OFF-ISLAND. OUR STANDARDIZED TEST SCORES THROUGHOUT THE SCHOOL SYSTEM SHOW CONTINUED IMPROVEMENT.

BUT WE CAN DO MORE, AND WE WILL.

WE HAVE DONE WELL IN HEALTH.

WE SIGNED AN HISTORIC AGREEMENT WITH THE U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES WHICH PERMITS US TO PARTICIPATE IN THE FEDERAL MEDICAID PROGRAM WITHOUT ONEROUS REQUIREMENTS WHICH WOULD HAVE DISRUPTED THE SOCIAL FABRIC OF OUR SOCIETY.

OUR DENTAL SERVICE HAS SIGNIFICANTLY UPGRADED ITS EQUIPMENT. AND THE GENERAL STATE OF THE HEALTH OF OUR CITIZENS

HAS IMPROVED OVER THE PAST SIX YEARS WITH THE GREATER AWARENESS OF THE VALUE OF PREVENTIVE MEDICINE.

BUT WE CAN DO MORE, AND WE WILL.

WE HAVE DONE WELL IN THE IMPROVEMENT OF THE SOCIAL WELL-BEING OF OUR PEOPLE.

IN ADDITION TO OUR PRIORITY EMPHASIS ON EDUCATION FOR OUR YOUTH, WE HAVE PROVIDED ALSO FOR THEIR RECREATION. OUR SPORTS PROGRAMS HAVE MOVED FORWARD RAPIDLY. OUR RECREATION DIVISION NOW TEACHES NINE SPORTS TO YOUTHS AND ADULTS ALIKE. WE HAVE MORE PARKS, MORE TENNIS COURTS AND MORE EQUIPMENT AND FACILITIES AVAILABLE THAN EVER BEFORE.

OUR PROGRAMS FOR OUR SENIOR CITIZENS HAVE EXPANDED AT THE SAME TIME. WISE INVESTMENT OF OUR TRUST FUNDS HAS ALSO ENABLED US TO REDUCE THE GOVERNMENT CONTRIBUTION TO PENSIONS AND INCREASE PENSION BENEFITS TO RETIREES.

BUT WE CAN DO MORE, AND WE WILL.

WE HAVE DONE WELL IN THE PRESERVATION OF OUR CULTURE.

THIS IS SOMETHING THIS ADMINISTRATION WILL NOT TAKE CREDIT FOR. THE CREDIT BELONGS TO THE PEOPLE. CULTURE IS DYNAMIC AND CERTAINLY DOES CHANGE TO ADJUST TO THE REALITIES OF THE TIMES.

YET, IN OUR 83 YEARS UNDER THE AMERICAN FLAG, THIS CULTURE HAS SURVIVED, THRIVED AND MAINTAINED ITS BASIC INTEGRITY WHILE OTHERS AROUND THE WORLD HAVE CRUMBLLED UNDER THE PRESSURES OF MODERNIZATION.

WE HAVE SURVIVED THE JET ENGINE.

WE HAVE SURVIVED THE SATELLITES.

WE HAVE SURVIVED THE COMPUTERS.

AND WE ARE PUTTING ALL OF THESE AND THE OTHER MAJOR TOOLS OF MODERN TECHNOLOGY TO WORK FOR US, AT OUR PEACE AND WITHIN OUR PRIORITIES.

I HAVE DWELT ON THE POSITIVE BECAUSE I AM AN ETERNAL OPTIMIST. OVER THE COURSE OF THE PAST THREE DECADES, I HAVE BEEN PRIVILEGED TO SERVE AS THE TOP EXECUTIVE OFFICIAL IN THREE ISLAND CHAINS: AMERICAN SAMOA, THE MARSHALL ISLANDS AND THE NORTHERN MARIANAS. AND I CAN SAY THAT ALL THE SETBACKS, ALL THE FRUSTRATIONS AT SLOWNESS OF PROGRESS AND DECISIONMAKING, ALL OF THE DISAPPOINTMENTS AND HARDHIPS HAVE PROVEN TO BE TEMPORARY WHEN VIEWED FROM A LONG TERM PERSPECTIVE.

YES, WE HAVE PROBLEMS. AND I DON'T INTEND TO MINIMIZE THEM. BUT WE CAN AND WILL SOLVE THEM. OUR PROBLEMS SHOULD BE VIEWED AS OPPORTUNITIES AND CHALLENGES.

I HAVE PREVIOUSLY TOUCHED ON OUR FINANCIAL SITUATION, BUT I FEEL THAT SOME CIRCUMSTANCES ARE WORTH REPEATING AS THIS IS A COMPREHENSIVE REPORT FOR THE WHOLE YEAR TO YOU AND THE PEOPLE OF AMERICAN SAMOA.

I AM PLEASED TO REPORT THAT OUR BELT-TIGHTENING MEASURES IN 1983, COUPLED WITH THE UPTURN IN OUR ECONOMY AND OUR BETTER-THAN-ANTICIPATED REVENUE COLLECTIONS HAVE ENABLED US TO USE THE \$7.1 MILLION SUPPLEMENTAL TO RESTORE ALL OF THE EXCESS DRAWDOWNS ON INTERIOR FUNDED CAPITAL IMPROVEMENT PROJECTS. IT APPEARS AS IF OUR CASH FLOW POSITION HAS IMPROVED TO THE EXTENT THAT THE FISCAL YEAR WILL HAVE ENDED WITH A POSITIVE CASH BALANCE.

1983 WAS AS DIFFICULT A YEAR AS ANY GOVERNMENT IS LIKELY TO FACE. IN ADDITION TO OUR FINANCIAL PROBLEMS, WE HAD WATER SHORTAGES, CONTINUED PROBLEMS WITH ADEQUATE AIR SERVICE, DISAPPOINTMENT WITH THE LACK OF GROWTH IN OUR TOURIST INDUSTRY, AND CONTINUED BATTLES WITH THE FORMER HEAD OF THE OFFICE OF TERRITORIES AT INTERIOR. AT VARIOUS TIMES, IT WAS RUMORED THAT HE HAD IN MIND SUCH THINGS AS REMOVAL OF SOME OFFICIALS IN OUR GOVERNMENT AND, ACCORDING TO THE MEMO I READ, EVEN CONTEMPLATED BRINGING IN NATIONAL PARK RANGERS TO GOVERN THE TERRITORY. FORTUNATELY, THE ONLY MAJOR CHANGE MADE WAS THAT HE REMOVED HIMSELF, MUCH TO THE RELIEF OF ALL.

IT WAS UNFORTUNATE THAT I HAD TO EXPEND SO MUCH OF MY TIME AND ENERGY, JUST TO TRY TO MINIMIZE THE DAMAGE HE WAS DOING TO

AMERICAN SAMOA. THANKS TO FRIENDS IN THE WHITE HOUSE, CONGRESS AND THE STATE DEPARTMENT, WE SUCCEEDED.

OVER THE COURSE OF THE WEEKS AND MONTHS AHEAD, I WILL BE SENDING TO THE FONO A NUMBER OF REQUESTS FOR NEW LEGISLATION. OUR EMPHASIS WILL BE TO TAKE THE ACTIONS WE BELIEVE NECESSARY TO STRENGTHEN OUR ECONOMIC BASE THROUGH DIVERSIFICATION. WE WILL CONCENTRATE OUR EDUCATION AND TRAINING PROGRAMS ON DEVELOPING THE SKILLS NECESSARY TO MANAGE OUR ECONOMY, AND TO INCREASE SIGNIFICANTLY OUR LOCAL REVENUES TO STRENGTHEN OUR HEALTH AND SOCIAL PROGRAMS. AS I HAVE ALWAYS INSISTED IN THE PAST, OUR PROGRAM WILL CONTINUE TO CALL FOR BALANCED DEVELOPMENT, SO THAT OUR SOCIETY CAN KEEP PACE WITH OUR PROGRESS WITHOUT ANY SACRIFICE OF OUR PRECIOUS CULTURAL VALUES.

THERE HAS BEEN MUCH TALK OVER THE YEARS OF RETURNING SOME GOVERNMENT ACTIVITIES TO THE PRIVATE SECTOR. I SUPPORT THIS CONCEPT IN PRINCIPLE. FOR EXAMPLE, THIS ADMINISTRATION HAS MADE ASPA SEMI-AUTONOMOUS. AND OUR TELEPHONE SERVICE HAS LONG BEEN OPERATED AS A PROFIT CENTER. OTHER ENTERPRISES SUCH AS THE RAINMAKER HOTEL, THE AIRPORT, THE MARINE RAILWAY, WASTE COLLECTION, THE GOLF COURSE, WATER SERVICE AND THE TELEVISION STATION HAVE ALL BEEN DISCUSSED AS POSSIBLE PRIVATE SECTOR ACTIVITIES. INDEED, MOST ARE IN PRIVATE HANDS IN U.S. COMMUNITIES. BUT THE SPECIAL CIRCUMSTANCES OF OUR ISOLATION, OUR CULTURAL VALUES AND ESPECIALLY

OUR LAND TENURE SYSTEM DICTATE THAT COMPROMISES BE FOUND OR OTHER METHODS BE SOUGHT. BECAUSE OF THE EASEMENTS GRANTED BY THE PEOPLE, THE WATER SYSTEM MUST CONTINUE TO BE OWNED BY THE GOVERNMENT. BECAUSE OF OUR LAND TENURE SYSTEM, THE GOLF COURSE CANNOT BE SOLD TO PRIVATE ENTERPRISE.

NEVERTHELESS, THERE IS VALUE TO THE IDEA OF PRIVATIZATION OF SOME GOVERNMENT ACTIVITY, AS LONG AS THEY ARE BUILT IN PROTECTIONS FOR OUR PEOPLE AND THEIR JOBS. WE MUST MOVE SLOWLY AND CAREFULLY IN THIS AREA. ACCORDINGLY, I SHALL SOON BE ANNOUNCING THE APPOINTMENT OF A BLUE RIBBON COMMISSION ON PRIVATIZATION TO CONSIST OF MEMBERS FROM OUR EXECUTIVE AND LEGISLATIVE BRANCHES AND THE LOCAL AND OFF-ISLAND PRIVATE SECTORS. I AM ALSO INVITING THE U.S. DEPARTMENT OF INTERIOR AND COMMERCE TO BE REPRESENTED. THE COMMISSION WILL EXAMINE THE WHOLE QUESTION OF THE VIABILITY OF PRIVATIZATION OF GOVERNMENT ACTIVITIES AND RECOMMEND WHICH SERVICES, IF ANY, CAN BE PERFORMED BETTER BY THE PRIVATE SECTOR. ALSO, WHAT SAFEGUARDS ARE NECESSARY SO THAT WE REMAIN IN CONTROL OF OUR DESTINY, AND NOT BE CAPTIVE OF OUTSIDE BUSINESS INTERESTS.

IN SHORT, WE WANT PRIVATIZATION EVALUATED AGAINST THE CRITERIA THAT -

- IT MUST BE BALANCED AGAINST SOCIAL AND POLITICAL DEVELOPMENT

- JOINT VENTURES WITH LOCAL RESIDENTS ARE PREFERRED
OVER OUTSIDE DOMINATION
- DISTRIBUTION OF INCOME TO PROMOTE STABILITY
THROUGH AS WIDE A DIFFUSION AS POSSIBLE
- LOCAL JOBS MUST BE PROTECTED AND PRODUCTIVITY
MEASURED TO BALANCE THE STANDARDS OF OUR SOCIETY
WITH NEED FOR BOTTOM LINE PROFITS

AT THE SAME TIME, THIS ADMINISTRATION WILL NOT NEGLECT ITS OWN RESPONSIBILITY FOR ENSURING A STABLE BUSINESS CLIMATE. WE NEED TO CONTINUE TO FEED OUR ECONOMIC STABILIZATION AND EMERGENCY FUND, NOW CAPITALIZED AT \$200,000, UNTIL IT REACHES ITS LEGAL CEILING OF \$10 MILLION TO HANDLE REVENUE SHORTFALLS TO AVOID A REPEAT OF OUR FISCAL PROBLEMS LAST YEAR.

AT THE SAME TIME, I WANT TO EXPLORE FORMING A POOL OF MONEY FOR THE GOVERNMENT TO USE TO ASSIST OUR LOCAL PRIVATE SECTOR TO RECAPITALIZE DURING DOWNTURNS IN THE ECONOMY.

I WILL ALSO BE ASKING THE FONO FOR LEGISLATION TO CREATE A NEW OFFICE OF OVERSIGHT, AN AUTONOMOUS OFFICE IN THE EXECUTIVE BRANCH. THIS OFFICE WILL PERFORM THE AUDIT FUNCTION FOR PROGRAMS FUNDED BY LOCAL REVENUES, WILL BE RESPONSIBLE FOR FOLLOWUP ACTIONS NECESSITATED BY INTERIOR INSPECTOR GENERAL AUDITS, AND WILL HAVE AN INVESTIGATIVE ARM TO PURSUE ANY COMPLAINT OF CORRUPTION OR

MISMANAGEMENT BROUGHT BY EITHER THE INSPECTOR GENERAL, ANY GOVERNMENT EMPLOYEE OR ANY CITIZEN IN THE COMMUNITY.

AS YOU KNOW, OUR SINGLE GOVERNMENT PERFORMS NEARLY ALL THE SAME FUNCTIONS THAT ARE SPLIT AMONG STATE, COUNTY AND MUNICIPAL GOVERNMENTS IN THE STATES. IN ADDITION, OUR EXECUTIVE BRANCH ACTS AS AN AGENT OF THE FEDERAL GOVERNMENT IN SOME CASES. THE FONO HAS RESPONSIBILITIES AND POWERS OF A CITY COUNCIL, A COUNTY BOARD, AND A STATE LEGISLATURE. AS GOVERNOR, I ALSO PERFORM FUNCTIONS USUALLY HANDLED BY MAYORS AND COUNTY EXECUTIVES.

I THINK THE TIME HAS COME TO REMOVE POLITICS FROM THE PERFORMANCE OF DAY-TO-DAY LOCAL SERVICES IN OUR GOVERNMENT. ACCORDINGLY, I AM GOING TO EXPLORE THE CONCEPT OF CREATING THE POSITION OF TERRITORIAL MANAGER. MUCH LIKE CITY MANAGERS FOUND IN U.S. CITIES OUR SIZE, A TERRITORIAL MANAGER WOULD BE A NON-POLITICAL, PROFESSIONALLY TRAINED PERSON TO MANAGE THE ROUTINE FUNCTIONS OF GOVERNMENT. WHEN I GO TO WASHINGTON NEXT MONTH, I WILL BE DISCUSSING THIS CONCEPT WITH INTERIOR AND WITH THE NATIONAL ASSOCIATION OF CITY MANAGERS. I AM NOT COMMITTED TO THIS FORM OF GOVERNMENT MANAGEMENT. HOWEVER, IF IN OUR EXPLORATION AN ADAPTATION TO THE BASIC CONCEPT CAN BE FOUND WHICH WOULD GIVE US A MORE EFFECTIVE GOVERNMENT, I WOULD BE WILLING TO LISTEN TO ANY PROPOSALS AND THAT THE LEGISLATURE WOULD BE KEPT INFORMED AT ALL TIME.

AS TO GENERAL GOVERNMENT REORGANIZATION, I HAVE A TWO-PHASED STUDY NOW COMPLETED. PHASE I, COVERING THE OFFICE OF THE GOVERNOR, WAS CONDUCTED BY THE NATIONAL GOVERNORS' ASSOCIATION, PHASE II ON THE EXECUTIVE BRANCH IN GENERAL BY THE INTERIOR DEPARTMENT.

LET ME ASSURE YOU THERE WILL BE NO WHOLESAL UPHEAVAL AS A RESULT OF ANY CHANGES WE MAKE. BUT I DO HAVE THE REPORTS UNDER CAREFUL CONSIDERATION. WHEN AND WHERE I SEE THE OPPORTUNITY FOR FURTHER GOVERNMENT EFFICIENCIES OR MORE EFFECTIVE USE OF PERSONNEL, I WILL NOT HESITATE TO MAKE THE NECESSARY CHANGES. WHERE CHANGES WILL NEED LEGISLATIVE ACTION, I WILL CONSULT WITH THE FONO LEADERSHIP.

I WOULD LIKE TO SPEAK NOW DIRECTLY TO THE PEOPLE OF MANU'A. I HAVE JUST RETURNED FROM MANU'A WHERE IT CAN BE WITNESSED THAT MANU'A, DESPITE SOME SETBACKS, HAS IMPROVED ABOUT 80% SINCE 1978. SURFACE TRANSPORTATION SEEMS TO ME IS THE BIGGEST NEED. ALSO, THERE IS EVIDENT NEED FOR THE EXTENSION AND SURFACING OF THE AIRSTRIPS IN OFU AND TA'U. THE HARD WORK IS READILY SEEN THERE IS MUCH PLANTING. THE WORM HAS BECOME A MENACE TO THE CROPS AND THE GOVERNMENT WILL HELP TO COMBAT THIS SITUATION. I THANK THE LEADERS AND PEOPLE OF MANU'A FOR THEIR HARD WORK AND ALL THE COURTESIES EXTENDED DURING OUR VISIT.

FINALLY, I WOULD LIKE TO SPEAK OF THE STATE OF AMERICAN SAMOA AS IT RELATES TO OUR NATION, THIS REGION AND THE WORLD. AS

YOU KNOW, I HAVE LONG BEEN INVOLVED IN THE WORK OF THE SOUTH PACIFIC CONFERENCE. WE HOSTED THIS CONFERENCE IN 1982. I HAVE WORKED LONG AND HARD FOR EQUALITY, SO I TOOK SPECIAL PRIDE ON YOUR BEHALF AT THE CONFERENCE IN SAIPAN LAST FALL WHEN AMERICAN SAMOA WAS ADMITTED TO MEMBERSHIP FOR THE FIRST TIME ON A FULL AND EQUAL BASIS WITH ALL OF THE INDEPENDENT COUNTRIES IN THE REGION PLUS THE U.S., BRITAIN AND FRANCE.

I TAKE A SPECIAL PRIDE ON YOUR BEHALF THAT AMERICAN SAMOA IS A FULL AND EQUAL MEMBER OF THE NATIONAL GOVERNORS'S ASSOCIATION AND THE WESTERN GOVERNORS' ASSOCIATION, WHICH I CHAIRED IN 1980. OUR VOICE IS HEARD AND OUR VOTE IS COUNTED EVERY BIT AS MUCH AS CALIFORNIA OR NEW YORK OR HAWAII.

I WILL CONTINUE TO BE ACTIVE IN THE REGION AND IN THE NATION THROUGH SUCH ORGANIZATIONS AND OTHERS, FOR WE BENEFIT FROM THESE FRIENDSHIPS AND THE NEW IDEAS THAT OTHER HEADS OF GOVERNMENT SHARE WITH US, AND WE WILL CONTINUE TO WORK WITH INTERNATIONAL BODIES SO THAT WE MAY VOICE OUR VIEWS ON SUCH CRITICAL ISSUES AS POLLUTION IN THE PACIFIC, INTERNATIONAL TRADE PREFERENCES AND THE THREAT OF SOVIET INFLUENCE IN OUR REGION.

TO THE FONO AND THE CABINET, I GIVE MY SINCEREST THANKS FOR PULLING TOGETHER DURING THE DIFFICULTIES OF 1983. AND OUR CITIZENS HAVE THE GRATITUDE OF ALL OF US FOR THEIR UNDERSTANDING AND SUPPORT OF THE TOUGH DECISIONS WE HAD TO MAKE.

TOGETHER, ALL THE BRANCHES OF THIS GOVERNMENT AND ALL THE PEOPLE OF THESE ISLANDS MUST BE BUILDERS. WE MUST BUILD FOR THE FUTURE. LET ME SHARE WITH YOU A POEM ONCE RECITED TO ME BY A FORMER MEMBER OF CONGRESS:

"I SAW THEM TEARING A BUILDING DOWN
A GANG OF MEN IN A DUSTY TOWN
WITH A "YO-HEEVE-HO" AND A LUSTY YELL
THEY SWUNG A BEAM - AND A SIDEWALL FELL.
I ASKED THE FOREMAN IF THESE MEN WERE AS SKILLED
AS THOSE HE WOULD HIRE IF HE WERE TO BUILD
HE LAUGHED AND SAID, "OH NO, INDEED,
COMMON LABOR IS ALL I NEED,
FOR THEY CAN WRECK IN A DAY OR TWO
WHAT BUILDERS HAVE TAKEN YEARS TO DO.
SO I ASKED MYSELF, AS I WENT MY WAY,
WHCIH OF THESE ROLES AM I TO PLAY?
AM I THE BUILDER WHO BUILDS WITH CARE
MEASURING LIFE BY THE RULE AND SQUARE?
OR AM I THE WRECKER WHO WALKS THE TOWN
CONTENT WITH THE ROLE OF TEARING DOWN?
MY BELOVED LEADERS AND PEOPLE OF AMERICAN SAMOA, AS WE
BUILD TOGETHER, SO BUILDS OUR LAND.

1984 PROMISES TO BE A GOOD YEAR. ACTING FOR THE GOOD OF ALL OUR PEOPLE, WE CAN SET THE COURSE FOR THE PROSPERITY AND FUTURE WELL-BEING OF AMERICAN SAMOA WELL TOWARD THE END OF THIS CENTURY IF WE HAVE THE WILL, THE COURAGE, AND GOD'S BLESSING TO DO IT. THANK YOU.

STATEMENT OF GALEA' I P. POMELE

I AM GREATLY HONORED TO APPEAR BEFORE YOU AND OFFER TESTIMONY ON THE PROPOSED 1985 BUDGET FOR THE TERRITORY OF AMERICAN SAMOA. I BRING GREETINGS AND TALOFA (ABIDING LOVE) OF OUR SENATE AND ALL THE PEOPLE OF AMERICAN SAMOA TO THE CONGRESS OF THE UNITED STATES OF AMERICA.

THE FINANCIAL CRISIS OF 1983 TAUGHT US MANY IMPORTANT LESSONS! OUR SOCIETY HAS STEADILY TRANSFORMED FROM AN AGRARIAN STATE TO THAT OF A COMMERCIAL COMMUNITY. NEARLY 100% OF FAMILIES IN THE WHOLE COMMUNITY LIVE FROM THE MARKETS. NOT TOO LONG AGO, MOST FAMILIES WORK IN THEIR OWN FARMS AND PLANTATIONS AND PRODUCED NEARLY ALL THEIR BASIC NEEDS FROM WITHIN. TODAY, IT IS THE "MARKET PLACE" WAY OF LIFE. IT IS A CASH ECONOMY IN THE AGGREGATE! THIS TRANSFORMATION DEMANDS EMPLOYMENT MARKETS, MARKETS FOR CONSUMER GOODS, CASH OR EXCHANGE MARKETS, ETC., ETC. IT IS THE BASIS FOR THE INCREASED CASH REQUIREMENTS (FISCAL BUDGETS) OF RECENT YEARS FOR THE TERRITORY.

A MARKET ECONOMY FOR THE TERRITORY IS A DYNAMIC PHENOMENON AND A VERY PROGRESSIVE SYSTEM! AT THIS EARLY STAGE OF THIS SOCIO-ECONOMIC REVOLUTION, WE HAVE IDENTIFIED ONE OF THE KEY ELEMENTS TO EFFECTIVE ACTIVITY IN THE SYSTEM, IS EMPLOYMENT. WE NEED TO CREATE EMPLOYMENT OPPORTUNITIES FOR THE PEOPLE.

I PLEAD WITH THE DISTINGUISHED MEMBERS OF THIS COMMITTEE, AS WELL AS MEMBERS OF CONGRESS, TO PLEASE HELP US DEVELOP BUSINESSES AND INDUSTRIES IN AMERICAN SAMOA. OUR ORIGINAL REQUEST OF \$14.1 MILLION FOR CONSTRUCTION IS REDUCED TO \$1.6 MILLION IN THE PRESIDENT'S BUDGET (DOI). THERE IS CRITICAL NEED OF VENTURE CAPITAL TO FINANCE SEVERAL VIABLE BUSINESS PROPOSALS FILED WITH THE LOCAL OFFICE OF ECONOMIC DEVELOPMENT. AN ECONOMIC DEVELOPMENT GRANT OF \$5 TO \$10 MILLION CAN HELP STIMULATE BUSINESSES AND CREATE JOBS. THE PRESIDENT ALSO REDUCED OUR REQUEST FOR GOVERNMENT OPERATIONS FROM \$23.8 MILLION TO \$20.4 MILLION. THE LOCAL LEGISLATURE HAD ANALYZED AND ADJUSTED OUR REQUEST TO THE ABSOLUTE MINIMUM LEVEL, AND THEREFORE HUMBLY REQUEST RESTORATION OF OUR ORIGINAL REQUEST FOR BASIC GOVERNMENT OPERATIONS WHICH INCLUDES FUNDING FOR THE HIGH COURT.

ANOTHER CONCERN WE ADDRESS AT THIS HEARING IS THE NECESSARY TECHNICAL SKILLS, EXPERIENCE, AND KNOWLEDGE TO MEET THE DEMANDS OF A TECHNICAL MARKET ECONOMY. OUR EDUCATIONAL SYSTEM IS INADEQUATE, INEFFECTIVE, AND INCOMPATIBLE WITH THE COMMERCIAL REVOLUTION WHICH EXISTS IN THE TERRITORY TODAY. THE FOCUS IS STILL THE SAME AS DECADES AGO - BASIC READING - WRITING, AND ARITHMETIC! ALTHOUGH THIS IS ESSENTIAL, THERE IS NEED OF A TECHNICAL FOCUS ON EDUCATION. OUR SCHOOLS SHOULD BE STAFFED, MAINTAINED (BUILT) AND EQUIPPED TO ENHANCE TECHNICAL LEARNING AND TRAINING IN SUCH FIELDS AS COMPUTER SCIENCE, TECHNICAL LABORATORIES, BUSINESS, SCIENTIFIC R & D, ELECTRONICS, INDUSTRIAL ARTS, AND WELL EQUIPPED INDOOR GYMNASIUMS FOR A COMPLETE P/E PROGRAM. MOST OF THE EXISTING SCHOOL BUILDINGS WERE CONSTRUCTED BEFORE 1965. NONE OF THE SCHOOLS HAVE INDOOR FACILITIES FOR ATHLETICS AND OTHER PHYSICAL EDUCATION ACTIVITIES. THE REASON WHY SAMOAN STUDENT ATHLETES CANNOT COMPETE

EQUALLY WITH STATESIDE ATHLETES IS DUE MAINLY TO THE LACK OF FACILITIES AND EQUIPMENT.

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, WE ASSURE YOU THAT THE INVESTMENT MADE INTO AMERICAN SAMOA IS AN INVESTMENT FOR THE GOVERNMENT AND PEOPLE OF THE UNITED STATES. AMERICAN SAMOA AND THE UNITED STATES ARE INSEPARABLE. WHEN OUR FOREFATHERS CEDED OUR ISLANDS THEY DID SO WITH REAL INTENTION THE UNITED STATES WILL INCORPORATE AMERICAN SAMOA INTO FULL FELLOWSHIP WITH THE REST OF THE UNITED STATES OF AMERICA.

BUT NOW EIGHTY SOME YEARS LATER, AMERICAN SAMOA IS STILL UNORGANIZED, UNINCORPORATED, AND UNDERDEVELOPED! IS THERE A QUESTION OF OUR LOYALTY TO THE UNITED STATES? I TESTIFY BEFORE YOU (THE COMMITTEE) AND THE CONGRESS OF THE U.S. THAT EVERY CHILD AND ADULT IN AMERICAN SAMOA OWE ALLEGIENCE TO THE UNITED STATES OF AMERICA. RECORDS OF THE ARMED SERVICES CERTIFY THIS TESTIMONY FOR OUR PARENTS HAD GIVEN OF THEIR LIVES IN DEFENSE OF THE UNITED STATES, OUR BROTHERS AND SISTERS ARE SERVING NOW, EVEN OUR CHILDREN WILL GIVE THEIR LIVES FOR THE UNITED STATES OF AMERICA FOR THEY KNOW IT IS THEIR GOVERNMENT AND COUNTRY.

WE PRAY YOUR INSPIRED JUDGEMENT MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE TO GRANT THE PEOPLE OF AMERICAN SAMOA ACCORDING TO THEIR NEEDS, AND ALLOW THEM COMPLETE FREEDOM TO DEVELOP THIS PRECIOUS PART OF THE UNITED STATES IN THE SOUTH PACIFIC.

IN CONCLUSION I DIRECT THE COMMITTEE'S ATTENTION, AND THAT OF THE CONGRESS TO SECTION (2) OF THE CESSION OF MANU'A ISLANDS, "IT IS INTENDED AND CLAIMED BY THESE PRESENTS THAT THERE SHALL BE NO DISCRIMINATION IN THE SUFFRAGES AND POLITICAL PRIVILEGES BETWEEN THE PRESENT RESIDENTS OF SAID ISLANDS AND

CITIZENS OF THE U.S. DWELLING THEREIN...." MY WISH IS THAT THESE PROVISIONS BE MADE RECIPROCAL AND THE PEOPLE BE TREATED EQUALLY WHEREVER THEY LIVE.

MAY DIVINE PROVIDENCE CONTINUE TO GUIDE THE LEADERS OF THIS GREATEST COUNTRY OF ALL THAT THE U.S. OF AMERICA WILL EVER STAND AS THE ENSIGN TO ALL NATIONS OF THE WORLD.

STATEMENT OF HON. TUANA'ITAU F. TUIA

MR. CHAIRMAN, AND HONORABLE MEMBERS OF THE COMMITTEE, I AM INDEED HONORED, TO HAVE THIS PRIVILEGE, TO APPEAR BEFORE YOU, AND TESTIFY ON THE TERRITORY'S FISCAL YEAR 1985 BUDGET SUBMISSION.

AS THE SPEAKER OF THE HOUSE OF REPRESENTATIVES, I WISH TO REGISTER OUR SUPPORT OF THE BUDGET SUBMITTED BY OUR GOVERNOR. I ACKNOWLEDGE WITH SYMPATHY THE AWSOME BUDGET-TASK BEFORE YOU. OUR OWN LOCAL LEGISLATURE ON A VASTLY REDUCED BUDGETARY SCALE, HAS SHIFTED THROUGH MANY COMPETING DEMANDS FOR FINITE RESOURCES AND FINALLY APPROVED THE REQUEST BEFORE YOU. IN TIMES LIKE THESE, WE WISH YOUR HISTORICALLY DEMONSTRATED GENEROSITY MATCHED WITH GREATER FEDERAL FISCAL LATITUDE. I WISH ALSO TO ECHO THE GOVERNOR'S SENTIMENTS OF THANKS TO YOUR GREAT COMMITMENT TO THE TERRITORY, MANIFESTED IN YOUR APPROVAL OF THE 1983 SUPPLEMENTAL, WHICH AIDED OUR LOCAL EFFORTS TO RESOLVE THE FINANCIAL DIFFICULTIES WE ENCOUNTERED. I WISH ALSO TO MAKE 'SPECIAL' MENTION OF THE TREMENDOUS SUPPORT WE RECEIVED FROM THE ASSISTANT SECRETARY, RICK MONTOYA AND HIS STAFF.

WE ARE TRUELY THANKFUL THAT THROUGH OUR COLLABORATE EFFORTS, THE FINANCIAL DIFFICULTIES OF OUR TERRITORY HAVE BEEN MADE MANAGEBLE. THE GOVERNOR, AS HE HAS ENUMERATED IN HIS REMARKS, IMPLEMENTED THE NECESSARY MANAGEMENT CONTROLS TO CORRECT, AND PREVENT THE REOCCURANCE OF THESE FINANCIAL PROBLEMS. WE ARE NOT OUT OF THE WOODS YET, AND WE ASK THAT YOU DO NOT FORESAKE US NOW BY REDUCING YOUR FINANCIAL SUPPORT.

THE HOUSE OF REPRESENTATIVES IS VERY CONCERNED WITH THE PRESIDENT'S PROPOSED REDUCTION TO OUR GOVERNMENT'S OPERATING BUDGET. WE ACKNOWLEDGE THE PRESIDENT'S QUEST TO REDUCE THE FEDERAL DEFICIT AND WE WANT TO PLAY OUR PART

IN THIS ENDEAVOR. I WANT TO ASSURE YOU THAT THE REVIEW OF THE BUDGET BY THE HOUSE OF REPRESENTATIVES WAS DONE WITH THIS THOUGHT IN MIND. IF COMPARED TO OUR FY 1984 BUDGET, IT HAS NOT INCREASED IN REAL DOLLARS. THE RECORDED INCREASE IN OUR FY1985 IS TO DEFRAY INFLATIONARY COST. THE REDUCTION PROPOSED IN THE PRESIDENTS FY1985 BUDGET WOULD IMPOSE A TREMENDOUS STRAIN ON OUR TERRITORY AND WOULD FRUSTRATE OUR EFFORTS TO BECOME MORE SELF-RELIANT. LAST WEEK THE US DEPARTMENT OF LABOR CONDUCTED WAGE HEARINGS FOR THE TERRITORY. IMPOSITION OF HIGHER MINIMUM WAGES WOULD MEAN AN ADDITIONAL BURDEN ON THE GOVERNMENT'S FY1985 BUDGET WHICH IT DID NOT ACCOUNT FOR. THE DEPARTMENT OF LABOR HAS, FOR THE LAST TEN YEARS, ARTIFICIALLY RAISED THE TERRITORY'S WAGE BILL WITHOUT PROVIDING MEANS TO FINANCE THESE COSTS. IF FAIR LABOR STANDARDS ACTS COMMITTEE RECOMMENDS A 5% INCREASE FOR THE GOVERNMENT, IT WOULD MEAN THAT AN ADDITIONAL 1.6 MILLION DOLLARS MUST BE OBTAINED FROM SOME OTHER REVENUE SOURCE TO OFFSET THIS. SAMOA PACKING (VAN CAMP) WILL BE SHUT DOWN FOR SIX MONTHS BEGINNING JULY 1, 1984, TO EFFECT ITS EXPANSION PROGRAM. THIS ACTION WILL REDUCE DISPOSABLE INCOME BY APPROXIMATELY \$1 MILLION EXCLUSIVE OF THE PURCHASES MADE BY THE FLEET IF THOSE BOATS CONTRACTED TO SAMOA PACKING MOVE TO OTHER LOCATIONS. ESTIMATED REVENUES TO THE GOVERNMENT FOR 1984 WILL ALSO BE AFFECTED, THUS PLACING THE GOVERNMENT AGAIN IN A VULNERABLE FISCAL POSITION. THE PRESIDENT'S PROPOSED REDUCTION FOR OUR FY1985 BUDGET, COUPLED WITH THE RAISING OF THE MINIMUM WAGES BY THE DEPARTMENT OF LABOR AND THE PENDING CLOSURE OF SAMOA PACKING FOR SIX MONTHS WILL DESTROY WHATEVER PROGRESS THE TERRITORY HAS ATTAINED AFTER ITS FINANCIAL WOES. WE AGAIN REQUEST YOUR COMMITTEE RESTORE OUR ORIGINAL REQUEST FOR OPERATIONS OF \$23.8 MILLION AS OPPOSED TO THE \$20.4 MILLION IN THE PRESIDENT'S BUDGET FOR FY1985.

WE ARE FULLY COGNIZANT OF THE NEED FOR OUR TERRITORY TO EXPAND ITS NARROW ECONOMIC BASE. WITH YOUR HELP, WE ARE FAR ALONG IN THE IMPROVEMENT OF OUR ECONOMIC INFRASTRUCTURAL SYSTEM. OUR MARINE RAILWAY REMAINS TO BE COMPLETED AND WE URGENTLY ASK FOR YOUR SUPPORT. WE ARE NOT HARVESTING THE FULL ECONOMIC BENEFITS ASSOCIATED WITH THE PURSE SEINERS. FOR EXAMPLE, IT HAS BEEN DETERMINED THAT THE AVERAGE DRYDOCKING COST FOR EACH PURSE SEINER IS \$500,000. THE PURSE SEINING FLEET THAT SERVICES OUR CANNERIES IS NOW 50 IN NUMBER. IF WE TAKE A CONSERVATIVE FIGURE OF 10 SEINERS TO BE REPAIRED AT OUR MARINE RAILWAY FACILITIES, THE TERRITORY WILL REALIZE \$5,000,000. THE LONGER

THE MARINE RAILWAY IS LEFT UNFINISHED, THE GREATER THE COST OF LOST OPPORTUNITY... TO THE TERRITORY IN TERMS OF JOBS AND REVENUES. GENTLEMEN, WE DESPERATELY NEED YOUR HELP IN THIS AREA.

WITH ITS ECONOMIC INFRASTRUCTURAL SYSTEM IN PLACE, THE TERRITORY IS IN A MUCH BETTER POSITION TO EFFECT ITS ECONOMIC AND SOCIAL DEVELOPMENT PROGRAMS. THE EXPANSION PROGRAMS CURRENTLY PURSUED BY OUR TWO CANNERIES, THE ENTRY OF THE PURSE SEINING FLEET, THE PARTIAL COMPLETION OF OUR MAIN DOCK, THE GOVERNMENT'S PROPOSED PRIVATIZATION CONCEPT, THE FOREIGN INVESTMENT INTERESTS UNDER THE HEADNOTE 3(a) AND TOURISM OFFER MANY NEW BUSINESS OPPORTUNITIES FOR OUR PEOPLE. PARTICIPATION BY OUR PEOPLE AND CAPITALIZING ON THESE ECONOMIC POTENTIALS WILL NOT BE POSSIBLE UNLESS THE GOVERNMENT IS ABLE TO PROVIDE THE NECESSARY MEANS ENSURING THEIR INVOLVEMENT. BECAUSE OF OUR LAND TENURE SYSTEM, THE COMMERCIAL BANKS ARE VERY RESTRICTIVE IN THEIR LENDING POLICIES. VENTURE CAPITAL LOANS ARE NOT PROVIDED BY THE COMMERCIAL BANKS. THIS FACTOR SHIFTS ALL THE BURDEN ON THE GOVERNMENT'S ILL FINANCED DEVELOPMENT BANK. YOUR SUPPORT IS MOST NEEDED, THEREFORE, BY GRANTING ECONOMIC DEVELOPMENT LOAN FUND TO PERMIT GREATER INVOLVEMENT BY OUR PEOPLE IN THESE BUSINESS OPPORTUNITIES.

IN CONCLUSION, MR. CHAIRMAN, AND HONORABLE MEMBERS OF THE COMMITTEE, YOU HAVE SHOWN GREAT COMPASSION AND A FIRM COMMITMENT TO THE DEVELOPMENT OF YOUR TERRITORIES. WITH YOUR SUPPORT, WE HAVE TOGETHER WEATHERED OUR FINANCIAL STORMS. WHILE THERE IS LIGHT APPEARING AT THE END OF THE TUNNEL, WE MUST NOT EASE OUR EFFORTS. WE ARE DOING OUR PART TO ENSURE THE ACCOMPLISHMENT OF OUR MUTUAL GOALS. WE FULLY RECOGNIZE THAT WE ARE BUT A MINUTE PART OF THE OVERALL SCHEME OF THINGS, HOWEVER, YOU HAVE DEALT FAIRLY WITH US SINCE OUR FOREFATHERS BEQUEATHED OUR WELFARE TO YOUR CAPABLE HANDS. OUR PRESENTATION TO YOU TODAY ENCOMPASSES THE ASPIRATIONS OF PEOPLE WHO WISH TO BETTER MANAGE THEIR OWN DESTINY. WE HAVE ASKED FOR YOUR HELP AND FINANCIAL SUPPORT TO ALLOW US TO IMPLEMENT THOSE PROJECTS THAT WILL MAKE US MORE SELF RELIANT AND ECONOMICALLY SELF-SUFFICIENT. WE HAVE NOT ASKED FOR THE SAKE OF ASKING, BUT HAVE ASKED BECAUSE WE NEED IT.

STATEMENT HIGHLIGHTS

Governor COLEMAN. I would just highlight the statement and touch on some important points that we wish to bring before you. American Samoa, as you well know, is very much limited in land.

In developing the economy of American Samoa we have looked to the sea and to the air. What we have done was to develop perhaps one of the best harbors in the South Pacific.

We have just completed building a main dock to add additional berthing space for ships that have come in. We have finished negotiating with an oil company where we now are assured of oil supply in our area. Perhaps our prices are the lowest in that part of the Pacific.

We have also worked well with the canneries in order for us to expand our revenues and our economic base. The canneries have been given tax exemptions after a certain tonnage with a certain ceiling. As a result, also, of the marine railway we have expanded to come in to our area so that they can bring their fish into our area and, at the same time, have repair work on the vessels.

We estimate at the present time there are about 40 purse seiner vessels in that area. Forty purse seiner vessels is almost 500 million dollars' worth of fishing equipment in that area.

We anticipate by the end of next year we will have about 100 fishing vessels that will make American Samoa the fishing headquarters of the U.S. fishing fleet in the Pacific. We have also improved our medical programs so that medical referrals are kept at reasonable cost.

The education part of our program is working very well. We have increased the number of Ph.D.'s and master's degrees in the Education Department. In the Capital Improvement Program we are trying to concentrate first on completing the programs we have like the main dock I talked about.

We finished 1,116 feet of the main dock and, by coincidence, the first vessel that tied up with that dock was one of the most modern Navy ships that came down. The Commander and Chief of the Pacific came down and joined us in dedicating that dock.

What we need for that dock further is to pave the area for the storage of the containers. The transshipment concept that we have developed is very optimistic and the potential for us is very promising.

That means that the goods can be brought to our area from the United States—from Australia, New Zealand, and Japan—and our area will be the distribution center. We have seen its effects on the economies of the other neighboring island countries; and that's a special role that American Samoa is playing in fostering strong friendships of the United States with the island countries in that area.

We are planning to build, in memory of Senator Scoop Jackson, a Scoop Jackson Administration Center. This center is designed to pull together all the government departments into one building so that it will be a more efficient organization of government as well as lowering the costs of government.

We also are working closely with the Interior Department through the outstanding leadership of Secretary Montoya. There is a much closer and friendlier relationship now with the Office of Territorial and International Affairs.

As a result, we are moving very rapidly into the privatization concept, moving some of the government offices or agencies into the private sector. We are receiving technical assistance from the Interior Department and we are very grateful for that.

That's all I have, Mr. Chairman.

Senator JOHNSTON. I thank you very much, Governor Coleman. Just one question. We will have some questions in writing, but I was curious.

You have satellite TV out there. Do you have live news on CNN?

Governor COLEMAN. We had the superbowl the last time. It was well received. As of now——

Senator JOHNSTON. I was in Paris. I couldn't get the superbowl.

Governor COLEMAN. We are repairing the TV station ourselves. We are using our own local funds. Our telecommunications system is perhaps one of the finest in the South Pacific.

Our people paid for that themselves. We did not ask the Congress for that so we are hoping that in the very near future we will get the news through our TV circuits.

Senator JOHNSTON. Well, thank you very much, Governor. I'm glad that things have been going better in Samoa and we're glad to play a part in it. Thank you very much.

Governor COLEMAN. I have with me here the president of the senate and the speaker of the house.

Senator JOHNSTON. Gentlemen, delighted to welcome you here. We're running out of time so if you can be very brief we'd love to hear your highlights.

SUMMARY STATEMENT OF SENATOR POUMELE

Senator POUMELE. Thank you very much, Mr. Chairman. I'll make it very, very short.

In the hearing of the House I have brought to the attention of the committee the condition of our schoolhouses and our indoor facilities for students. Not only has our capital development request for \$14.1 million been reduced to \$1.6 million, we also tried to obtain funds for economic development, \$5 to \$10 million, to help stimulate business in our small community, in the Government of American Samoa.

That has been also reduced. Our other request, for \$43.8 million to \$24.8 million, I think that is for our operations.

Mr. Chairman, I really want to bring to the attention of this committee the inadequacy of our school facilities, the indoor gymnasium for the students, so they can fairly compete not only outside the United States, but also with some of the countries in the South Pacific.

They have much better athletes than ours because they have the modern facilities for their students and their athletes; and that is all, Mr. Chairman. Thank you.

Senator JOHNSTON. Thank you very much.

SUMMARY STATEMENT OF REPRESENTATIVE TUIA

Representative TUIA. Mr. Chairman and honorable members of the committee, I am indeed honored to have the privilege to appear before you and testify on the territory's fiscal year 1985 budget.

As the speaker of the house of representatives I wish to register our support of the budget submitted by our Governor. I wish also to echo the Governor's thanks to your great commitment manifested in your approval of the 1983 supplemental which aided our local effort to resolve our financial difficulties.

I wish also to make special mention at this time of the tremendous report we received from the Assistant Secretary, Mr. Montoya.

Mr. Chairman, the House of Representatives is very concerned with the President's proposed reduction of our government's operation budget which was cut by \$3.4 million. We acknowledge the President's request to reduce the Federal deficit and we want to play our part in this endeavor. I want to assure you that the review of the budget by the House of Representatives was not done with a distorted mind.

Mr. Chairman, last week the U.S. Department of Labor—and I have discussed this with Mr. Montoya—conducted wage hearings for the territory. It appears that the Fair Labor Standards Committee recommends a 5 percent increase which has not been taken into account; and this is an amount of \$1.6 million.

We want to state at this time that Van Camp will be closed for about 6 months. It is also a reduction in our economy to the amount of \$1 million. I am only placing it in the record, as stated in my testimony; but, Mr. Chairman, we appreciate the cooperation that you are giving to us.

But we ask, please restore the cuts from the President's budget for our operations. We feel it is not an increase. It is cost for the inflationary action of our government in American Samoa.

Thank you very much for the time.

Senator JOHNSTON. Thank you very much, Mr. Speaker. I appreciate that. Thank you, gentlemen.

COMMONWEALTH OF THE NORTHERN MARIANAS

STATEMENT OF PEDRO A. TENORIO, LIEUTENANT GOVERNOR, COMMONWEALTH OF THE NORTHERN MARIANAS

ACCOMPANIED BY:

HON. BENJAMIN T. MANGLONA, VICE PRESIDENT OF THE SENATE

HON. JUAN T. GUERRERO, MEMBER OF THE HOUSE OF REPRESENTATIVES

PREPARED STATEMENTS

Senator JOHNSTON. Gentlemen, I hate to be so short with all of our excellent panels, but Senator McClure was scheduled to handle the last half of the afternoon and he's not going to be able to come back. So I'm afraid we're going to have to ask each panel to summarize within 5 minutes.

I would like to next welcome Mr. Tenorio, Lieutenant Governor of the Northern Marianas. With Mr. Tenorio is the Washington representative for the Northern Marianas. They are also joined by the Honorable Benjamin T. Manglona, vice president of the senate, and Mr. Guerrero, who is chairman of the house committee on appropriations.

Gentlemen, I hate to have to ask you to summarize in 5 minutes, but that's all the time we have.

Of course, we will have the written statements put into the record.

[The statements follow:]

STATEMENTS OF PEDRO A. TENORIO

I AM PEDRO A. TENORIO, LT. GOVERNOR OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS. ON BEHALF OF GOVERNOR TENORIO AND THE PEOPLE OF THE NORTHERN MARIANAS, I EXTEND OUR HAGA ADAI AND APPRECIATION FOR THE OPPORTUNITY TO APPEAR BEFORE YOU. GOVERNOR TENORIO SENDS HIS REGRETS FOR NOT BEING ABLE TO BE HERE TODAY.

WE ARE GRATEFUL TO THE UNITED STATES GOVERNMENT AND, IN PARTICULAR, THE CONGRESS FOR THEIR UNDERSTANDING, PATIENCE AND CONTINUING GENEROSITY IN SUPPORT OF OUR GOVERNMENT NEEDS FOR FINANCIAL ASSISTANCE. THIS ANNUAL VISIT TO OUR NATION'S CAPITOL HAS SOMETIMES BEEN CHARACTERIZED AS A PILGRIMAGE TO SIMPLY MAKE OFFICIAL OUR REQUEST FOR MONEY FROM THE UNITED STATES, PURSUANT TO OUR POLITICAL STATUS AGREEMENT, AND WE HAVE ALWAYS ENDED UP REQUESTING MORE THAN WHAT WAS ORIGINALLY INTENDED AS A UNITED STATES COMMITMENT OF GUARANTEED FINANCIAL ASSISTANCE UNDER U.S. PUBLIC LAW 94-241, THE COVENANT. MR. CHAIRMAN, WE ARE HERE AGAIN TO ASK FOR YOUR HELP, AND THIS YEAR'S FINANCIAL REQUESTS ARE NOT RADICALLY DIFFERENT FROM PREVIOUS YEARS'; THE AMOUNTS ARE SOMEWHAT DIFFERENT, BUT OUR PRIORITIES HAVE BEEN CONSISTENT, UNIFORM AND THOROUGHLY DEFINED AND JUSTIFIED.

AFTER OUR TESTIMONIES LAST YEAR, WHICH OUTLINED MILLIONS OF DOLLARS OF REQUESTS' FOR CAPITAL IMPROVEMENT PROJECTS, ONE ADMINISTRATION OFFICIAL CRITICIZED US AS HAVING "EYES BIGGER THAN OUR STOMACHS". WE HOPE THAT, THIS YEAR, OUR CRITICS ARE MORE SYMPATHETIC AND GENEROUS. WE WISH THAT WE DID NOT HAVE TO COME TO WASHINGTON EVERY YEAR TO REQUEST FUNDS TO OPERATE OUR SCHOOLS, HOSPITAL AND DISPENSARIES, OUR POWER PLANTS, OUR WATER AND SEWERAGE SYSTEMS AND OTHER PUBLIC SERVICES. HOWEVER, AT THIS TIME, WE FOUND THAT WE HAVE NO OTHER RECOURSE AVAILABLE THAN TO APPEAL TO THE UNITED STATES CONGRESS FOR ASSISTANCE. I WISH TO EMPHASIZE THAT HISTORICALLY IT IS THE UNITED STATES CONGRESS THAT HAS HEARD AND RESPONDED TO OUR REQUESTS FOR FUNDS AND OTHER ASSISTANCE. IN THE RECENT PAST, WE HAVE HAD LITTLE OR NO COOPERATION OR SUPPORT FROM THE ADMINISTRATION ON OUR FUNDING REQUESTS FOR IMPORTANT AND CRITICAL PUBLIC SERVICES AND PROJECTS. NOW, WITH MR. RICHARD MONTOYA AS THE NEW ASSISTANT SECRETARY IN THE OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS, WE HAVE HIGH HOPES AND EXPECTATIONS THAT OUR REQUESTS WILL BE GIVEN THE NEEDED ATTENTION THEY DESERVE.

ABOUT SEVEN YEARS AGO, THE NORTHERN MARIANAS JOINED THE AMERICAN POLITICAL FAMILY (IN JANUARY 1978), UPON THE EFFECTIVE DATE OF THE COVENANT AND OUR LOCAL CONSTITUTION. PURSUANT TO THE COVENANT FINANCIAL AGREEMENT, THE NORTHERN MARIANAS WAS GIVEN ONLY SEVEN YEARS TO PREPARE ITSELF TO BE FINANCIALLY SELF-SUSTAINING, TO DEVELOP ECONOMICALLY, SOCIALLY, EDUCATIONALLY AND POLITICALLY, A PERIOD FOR WHICH TIME IT HAS GUARANTEED FINANCIAL ASSISTANCE FROM THE UNITED STATES. WE KNOW OF NO OTHER UNITED STATES TERRITORY OR STATE THAT WAS GIVEN A TIMETABLE TO GROW UP AND MATURE WITHIN SEVEN YEARS. LET ME STATE, FOR THE RECORD, THAT WE HAVE TRIED OUR VERY BEST TO LIVE UP TO OUR OBJECTIVE TO DEMONSTRATE THAT AFTER SEVEN YEARS WE ARE READY TO FINANCE OUR LOCAL GOVERNMENT, TO DEVELOP OUR UTILITIES AND ISLAND INFRASTRUCTURE TO A LEVEL COMPARABLE TO OTHER UNITED STATES TERRITORIES AND STATES. WE HAVE NOT ACHIEVED OUR OBJECTIVE OF SELF-RELIANCE AND FINANCIAL INDEPENDENCE. WE MUST, REGRETFULLY, INFORM YOU THAT WE WILL CONTINUE TO REQUIRE THE HELP OF THE UNITED STATES GOVERNMENT IN ORDER TO ACHIEVE THAT EXTREMELY DIFFICULT OBJECTIVE.

ALLOW ME TO PROVIDE YOU WITH FACTS AND FIGURES THAT WILL BRIEFLY DESCRIBE WHERE WE WERE THEN AND WHERE WE ARE NOW WITH RESPECT TO GROWTH AND ACHIEVEMENT OVER THE PAST SEVEN YEARS SINCE THE INSTALLATION OF THE NORTHERN MARIANAS CONSTITUTIONAL GOVERNMENT AND THE IMPLEMENTATION OF THE COVENANT IN JANUARY 1978. IN 1978, OUR LOCAL TAX COLLECTION AMOUNTED TO ONLY ABOUT THREE MILLION DOLLARS, OR ABOUT 14% OF OUR TOTAL GOVERNMENT FUNDS. IN LESS THAN SEVEN YEARS, WE HAVE RAISED OUR LOCAL REVENUES TO CLOSE TO TWENTY-ONE MILLION DOLLARS, OR ABOUT 45% OF THE TOTAL GOVERNMENT FUNDS, THROUGH ENACTMENT OF MORE PROGRESSIVE TAXATION SCHEMES THAT ARE MORE PRACTICAL TO OUR ECONOMIC SETTING. IN 1978, THE PREVAILING UTILITY CHARGES FOR ELECTRICITY AND WATER WERE 3.5¢ PER KILOWATT HOUR AND 25¢ PER THOUSAND GALLONS OF WATER RESPECTIVELY. ALTHOUGH WE RECOGNIZED THE POLITICAL IMPACTS AND REPERCUSSIONS THAT RAISING UTILITY CHARGES WOULD HAVE ON OUR ADMINISTRATION, SINCE 1982, WE HAVE INCREASED BOTH RATES BY 100%. WE HAVE RAISED OUR REVENUES FROM UTILITIES FROM LESS THAN TWO MILLION DOLLARS IN 1978 TO ABOUT FOUR MILLION DOLLARS NOW. UNDER OUR LOCAL PUBLIC LAW 3-11, WE HAVE INCREASED PRACTICALLY ALL CONCEIVABLE AREAS OF TAXATION AND FEES, FROM BUSINESS GROSS RECEIPT TAXES TO INDIVIDUAL INCOMES AND SALARIES; EVEN AUTOMOBILE LICENSING FEES. THIS SINGLE PIECE OF LEGISLATION HAS HELPED US IN INCREASING OUR LOCAL REVENUES BUT ALSO GREATLY CONTRIBUTED TO OUR DEFEAT IN OUR LAST ELECTION FOR THE LEGISLATURE. TOURISTS AND OTHER VISITORS HAVE INCREASED FROM 91,372 IN 1978. THIS YEAR, OUR

PROJECTION IS ABOUT 143,000 VISITORS, WITH MORE THAN 85% COMING FROM JAPAN. IN 1978, THERE WERE 476 BUSINESS ESTABLISHMENTS; NOW, WE HAVE MORE THAN 1,400 BUSINESS FIRMS. IN 1978, HOTEL ROOMS NUMBERED ABOUT 740; NOW, WE HAVE CLOSE TO 820 ROOMS WITH NEW CONSTRUCTION ON THE WAY FOR AN ADDITIONAL 80 ROOMS. OUR POWER, WATER AND SEWERAGE SYSTEMS HAVE ALSO EXPANDED DRAMATICALLY DUE TO NEW CONSTRUCTION FROM FUNDS MADE AVAILABLE TO US FROM THE UNITED STATES CONGRESS. WE CAN SAFELY SAY THAT MOST HOUSEHOLDS HAVE POWER AND WATER SERVICES; WHEREAS, PRIOR TO 1978, SUCH SERVICES WERE LIMITED TO VILLAGES LOCATED NEAR CENTRAL POWER AND WATER SOURCES. IN PAST YEARS, WE HAVE HAD TO TELL THE TOURISTS NOT TO COME TO OUR ISLANDS BECAUSE OF THE INADEQUACY OF OUR UTILITIES. NOW, WE SOMETIMES HAVE TO TELL THEM TO GO TO GUAM BECAUSE WE DON'T HAVE ENOUGH HOTEL ROOMS. DESPITE ALL THESE MARKED IMPROVEMENTS IN OUR UTILITIES, MUCH WORK REMAINS TO BE DONE TO INSTALL SERVICE METERS, REPAIR AND REPLACE OLD EXISTING POWER AND WATER SYSTEMS THAT ARE OBSOLETE AND UNECONOMICAL TO MAINTAIN OR KEEP OPERATIONAL. FEDERAL LAWS AND RULES AND REGULATIONS COMPEL US TO IMPROVE OUR PRIMARY PUBLIC UTILITIES TO MEET PUBLIC HEALTH AND HOUSING LOANS MINIMUM PROPERTY STANDARDS. WE NEED FUNDS TO UNDERTAKE SUCH REQUIRED IMPROVEMENTS IF WE ARE TO TAKE ADVANTAGE OF FEDERAL FUNDS FOR UTILITIES AND PRIVATE HOUSING CONSTRUCTION LOANS. WITH THE PROSPECT FOR RAPID GROWTH OF THE PRIVATE SECTOR, IN BOTH INVESTMENT AND NEW HOME CONSTRUCTION, OUR UTILITIES MUST CONTINUE TO BE IMPROVED, UPDATED AND MAINTAINED PROPERLY. WE HAVE BEEN FORTUNATE TO BE VISITED BY NUMEROUS FEDERAL OFFICIALS OVER THE LAST FEW YEARS. THEY ARE WITNESSES TO THE INADEQUACIES OF OUR UTILITY SYSTEM FOR, ALTHOUGH THEY STAYED IN PLUSH HOTELS, THEY, TOO, FAILED TO TAKE SHOWERS AFTER A LONG HARD DAY'S WORK, FOR THE WATER WAS SHUT OFF IN THE EVENING.

THIS YEAR, AS WE HAVE TESTIFIED IN PREVIOUS YEARS, OUR PRIORITIES ARE THE COMPLETION OF THE NEW COMMONWEALTH HEALTH CENTER, WHICH IS UNDER ACTIVE CONSTRUCTION, AND IMPROVEMENT OF OUR WATER SYSTEMS, OTHER UTILITIES, HIGHWAYS, SEA PORTS AND HARBORS. THIS YEAR, WE ARE REQUESTING THE FULL AUTHORIZED AMOUNT FOR THE COMPLETION OF THE HOSPITAL CONSTRUCTION AND TO PURCHASE NECESSARY EQUIPMENT AND FURNISHINGS FOR THE HOSPITAL, AS WELL AS FOR START-UP COST AND MAINTENANCE, FOR RECRUITMENT OF NEW MEDICAL PERSONNEL AND FOR SHORT AND LONG-TERM MEDICAL AND ADMINISTRATIVE TRAINING OFF-ISLAND FOR HOSPITAL PERSONNEL. LET ME REPEAT THAT WE ARE ALSO REQUESTING, AS A MATTER OF EXTREME URGENCY, FUNDS TO CONTINUE TO UPGRADE OUR WATER SYSTEMS. WE ARE HAPPY TO INFORM YOU THAT THE SAIPAN AIRPORT WATER CATCHMENT SYSTEM, FUNDED BY THE

UNITED STATES CONGRESS, IS NEARING COMPLETION, AND WHEN COMPLETED IN SEPTEMBER THIS YEAR, IT WILL PROVIDE SAIPAN WITH GOOD QUALITY RAINWATER AMOUNTING TO OVER 600,000 GALLONS PER DAY (SEE PHOTOGRAPH).

COMMONWEALTH HEALTH CENTER PROJECT

WHILE WE RESPECTFULLY ACKNOWLEDGE THE HOUSE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS' PROPOSED ADDITIONAL \$1,600,000 TO CONTINUE THE CONSTRUCTION OF THE HOSPITAL REPLACEMENT PROJECT, BASED ON OUR ESTIMATES, THE AMOUNT IS INSUFFICIENT TO PROVIDE FOR THE EARLY PURCHASE OF MEDICAL EQUIPMENT, KITCHEN EQUIPMENT, FURNISHINGS AND RELATED OPERATIONS AND MAINTENANCE AND START-UP COSTS. WITHOUT THE REQUESTED FUNDS, WE WOULD HAVE A BRAND NEW HOSPITAL BUT NOT THE NECESSARY EQUIPMENT AND SUFFICIENT MEDICAL, ADMINISTRATIVE AND MAINTENANCE PERSONNEL TO OPERATE THE HOSPITAL.

IN THE LAST TWO YEARS, \$20,000,000 OF CONSTRUCTION FUNDS WERE APPROPRIATED FOR THIS CRITICAL PROJECT. COST SUMMARY INDICATING WHERE THESE APPROPRIATIONS WERE OBLIGATED IS ATTACHED TO THIS STATEMENT (ATTACHMENT #1). I WISH TO NOTE THAT CURRENT PROJECT COST IS EXPECTED TO EXCEED THE APPROPRIATION OF \$20,000,000 BY \$2,088,318. WE ARE REQUESTING THAT \$10,000,000 BE PROVIDED IN FY 1985 IN ORDER TO FUND THE CURRENT SHORTFALL, TO STAVE OFF RISING COSTS, TO PLAN FOR THE OPENING, AND TO COMPLETE THE OVERALL PROJECT WITHIN THE CONTRACTUAL TIMEFRAME. IT IS THE CONSIDERED RECOMMENDATION OF THE COMMONWEALTH GOVERNMENT AND THE PROFESSIONAL ENGINEERING, ARCHITECTURAL AND CONSTRUCTION MANAGEMENT FIRMS THAT IT IS VITAL THAT THE REMAINING \$10,000,000 REQUIRED TO RENDER THE FACILITY OPERATIONAL BE APPROPRIATED IN FY 1985. THIS WILL ALLOW US TO PURCHASE MOVEABLE EQUIPMENT EARLY AND WILL THUS PREVENT SIGNIFICANT COST ESCALATION DUE TO INFLATION, AND WILL ALSO ENABLE THE COMMONWEALTH GOVERNMENT TO RECRUIT, TRAIN AND PREPARE FOR THE OPENING OF THE CENTER SCHEDULED FOR SEPTEMBER OR OCTOBER 1985. MORE IMPORTANTLY, FUNDING OF THIS REQUEST WITH THE \$10,000,000 WILL ENSURE THAT THE END RESULT WILL NOT BE A FACILITY WHICH IS EMPTY OF REQUIRED MEDICAL EQUIPMENT, TRAINED PERSONNEL AND FACILITY OPERATIONS AND MAINTENANCE PERSONNEL. PLANNING FOR MAINTENANCE OF THE HEALTH CENTER ON A CONTINUING BASIS IS AN IMPORTANT ASPECT OF OUR HEALTH CARE PROGRAM, AS WE WANT TO ENSURE THAT THE FACILITY WILL LAST FOR A LONG TIME. TOO MANY TIMES IN THE PAST, EXPENSIVE PUBLIC PROJECTS FINANCED BY CONGRESS DETERIORATED QUICKLY BECAUSE OF THE LACK OF PROPER MAINTENANCE.

WE ARE COGNIZANT OF CONGRESS' CONCERN AS TO HOW THE HOSPITAL IS TO BE MAINTAINED AND OPERATED ONCE IT IS BUILT. TO ENSURE THAT THE NEW COMMONWEALTH HEALTH CENTER RUNS PROPERLY, IS CORRECTLY MAINTAINED AND DELIVERS THE CARE FOR WHICH IT WAS INTENDED, A COMPREHENSIVE ACTION PLAN HAS BEEN DEVELOPED. THIS PLAN OUTLINES THE VARIOUS STEPS TO BE TAKEN, FROM STAFFING TO FINANCING OF OPERATING COST TO MAINTENANCE. THE UNITED STATES PUBLIC HEALTH SERVICE AND THE OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS ARE INVOLVED IN THE DEVELOPMENT OF THIS IMPORTANT PLAN, AND I WISH TO NOTE THAT THE UNITED STATES PUBLIC HEALTH SERVICE, REGION IX, HAS APPROVED THE HOSPITAL OPERATIONS PLAN WHICH I AM SUBMITTING FOR THE RECORD.

HILL-BURTON DISPENSARY PROJECTS ON TINIAN AND ROTA

SINCE 1983, NEW PUBLIC HEALTH FACILITIES HAVE BEEN UNDER CONSTRUCTION ON ROTA AND TINIAN THROUGH FUNDS MADE AVAILABLE BY THE HILL-BURTON DISPENSARY CONSTRUCTION PROGRAM. OUR GOVERNMENT WILL BE RECEIVING, THROUGH REIMBURSEMENT FROM THE UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES, ABOUT \$1,400,000 FOR THE CONSTRUCTION OF TWO SEPARATE PUBLIC HEALTH CENTERS. CONSTRUCTION BIDS RECEIVED FOR BOTH TOTAL \$1,900,000, WHICH IS \$500,000 MORE THAN THE AVAILABLE FUNDING. FURTHER, TO REASONABLY EQUIP THE TWO CENTERS WITH MEDICAL EQUIPMENT, OFFICE FURNITURE AND SUPPLIES, WE NEED AN ADDITIONAL \$400,000. THEREFORE, AN ADDITIONAL \$900,000 WILL BE REQUIRED TO FINISH CONSTRUCTION, PURCHASE EQUIPMENT AND FURNISHING. WE WISH TO ENTER THIS REQUEST ON RECORD, MR. CHAIRMAN, IN THE FY 1985 BUDGET AUTHORIZATION.

WATER SUPPLY

AS WITH HEALTH FACILITIES, WE CONSIDER WATER PRODUCTION AND DISTRIBUTION TO BE OF THE SAME HIGH PRIORITY. THIS YEAR WE ARE REQUESTING \$6,256,000 FOR WATER SYSTEMS IMPROVEMENT PROJECTS. SOME OF THE PROPOSED PROJECTS ARE FOR DESIGN AND CONSTRUCTION OF THE IMPROVEMENTS NECESSARY TO PROVIDE CONTINUOUS WATER SERVICE TO THE MAJORITY OF THE POPULATION IN THE GROWTH CENTER OF SAIPAN AND POPULATION CENTER OF ROTA, AS WELL AS RURAL COMMUNITIES AND AGRICULTURAL LANDS. THE ENTIRE POPULATION OF SAIPAN (14,583) AND ROTA (2,200) WILL BENEFIT FROM THE IMPROVED CLIMATE FOR ECONOMIC DEVELOPMENT. CURRENTLY, AN ESTIMATED \$60,000,000 IN INVESTMENTS FOR BOTH ISLANDS ARE BEING DISCOURAGED BY INADEQUATE WATER INFRASTRUCTURE DEVELOPMENT.

THIRD COUNTRY ASSISTANCE

MR. CHAIRMAN, WE SEEK YOUR ASSISTANCE AND GUIDANCE IN DETERMINING WHETHER THE UNITED STATES GOVERNMENT POLICY ON THIRD COUNTRY ASSISTANCE TO MICRONESIA, IN GENERAL, APPLIES TO THE NORTHERN MARIANAS. WE FEEL THAT THE POLICY PROMULGATED ON MARCH 31, 1978 BY THE UNITED STATES DEPARTMENT OF STATE IS APPLICABLE IN THE NORTHERN MARIANAS BUT HAVE YET TO RECEIVE A CLEAR RESPONSE TO OUR QUERIES. POTENTIALLY, THE NORTHERN MARIANAS COULD RECEIVE GOODS AND MATERIALS FROM FRIENDLY THIRD COUNTRIES; ASSISTANCE THAT COULD IMPROVE OUR ECONOMY AND OUR UTILITIES AND INFRASTRUCTURE, AND AID US IN OUR PURSUIT OF ECONOMIC INDEPENDENCE, BUT WE HAVE ALWAYS BEEN DISCOURAGED AND HAVE BEEN INFORMED THAT, BECAUSE WE ARE A UNITED STATES COMMONWEALTH, WE ARE CONSIDERED A DEVELOPED COUNTRY AND, THEREFORE, CANNOT BE GRANTED AID UNLESS A FORMAL DECLARATION FROM THE UNITED STATES GOVERNMENT CONFIRMS THAT THE NORTHERN MARIANAS IS A DEVELOPING TERRITORY.

MR. CHAIRMAN, IN OUR ESTIMATION, THE UNITED STATES POLICY IS CLEAR ON THIS MATTER. WE ARE ASKING THE UNITED STATES GOVERNMENT, THROUGH THE DEPARTMENT OF STATE AND THE UNITED STATES EMBASSIES IN SEVERAL COUNTRIES, TO EFFECTIVELY INFORM FRIENDLY THIRD COUNTRIES THAT, ALTHOUGH THE NORTHERN MARIANAS IS A UNITED STATES TERRITORY, OR WILL SOON BE A UNITED STATES TERRITORY, THAT, FOR PURPOSES OF AID, IT IS A DEVELOPING COUNTRY AND THAT IT IS ELIGIBLE TO RECEIVE ECONOMIC AND OTHER ASSISTANCE AS OTHER INDEPENDENT COUNTRIES.

MR. CHAIRMAN, IF THE NORTHERN MARIANAS CAN QUALIFY FOR SUCH ASSISTANCE, AND WE SEE NO LEGITIMATE LEGAL REASON WHY IT CANNOT, WE WOULD NOT BE COMING TO THE UNITED STATES CONGRESS EVERY YEAR REQUESTING MILLIONS OF DOLLARS FOR UTILITIES, FOR PARTS AND OTHER CAPITAL IMPROVEMENT PROJECTS WHICH WE DESPERATELY NEED. IT WILL TAKE MANY YEARS OF FUNDING BEFORE WE CAN CONSIDER THE NORTHERN MARIANAS A DEVELOPED COUNTRY OR, FOR THAT MATTER, TO ACHIEVE A LEVEL OF LIVING STANDARD COMPARABLE TO UNITED STATES COMMUNITIES. WE WOULD VERY MUCH APPRECIATE YOUR ASSISTANCE IN ENCOURAGING THE DEPARTMENT OF STATE TO DESIGNATE THE NORTHERN MARIANAS AS A DEVELOPING COUNTRY, AND ESTABLISHING THAT IT IS ELIGIBLE TO RECEIVE THIRD COUNTRY ECONOMIC DEVELOPMENT ASSISTANCE. ANY ASSISTANCE YOU CAN AFFORD US IN IMPLEMENTING THIS POLICY WILL LEND GREATER CREDENCE TO OUR EFFORT OF ACHIEVING ECONOMIC SELF-SUFFICIENCY.

THE SOCIAL SECURITY PRIOR SERVICE BENEFITS

THE TOTAL FUTURE LIABILITY OF THE PRIOR SERVICE BENEFIT PROGRAM IS APPROXIMATELY \$25,000,000. ABOUT 42% OF THIS, OR SOME \$10,000,000, WILL ACCRUE TO NORTHERN MARIANA ISLANDS BENEFICIARIES. THE COMMONWEALTH CANNOT AFFORD TO TAKE ON THIS ADDITIONAL FISCAL BURDEN. ON THE OTHER HAND, IT WOULD BE IMMORAL TO DENY THESE FAMILIES THE RETIREMENT INCOME THEY DESERVE. ADDITIONALLY, IT IS OUR POSITION THAT THE FEDERAL GOVERNMENT HAS A LEGAL OBLIGATION TO FUND THESE BENEFITS, UNDER THE PROVISIONS OF SECTION 606(a) OF THE COVENANT. CONSEQUENTLY, WE RECOMMEND THE AUTHORIZATION OF A RELATIVELY SMALL, ONE-TIME APPROPRIATION (\$14,000,000) TO BRING THE ASSET VALUE OF BOTH THE MICRONESIAN AND NORTHERN MARIANA ISLANDS FUNDS TO A LEVEL THAT WILL PRODUCE SUFFICIENT REVENUES TO FUND ALL BENEFITS UNTIL THEY EXPIRE.

III. WAR CLAIMS

ANOTHER MATTER OF CONTINUING CONCERN TO OUR PEOPLE IS THE SETTLEMENT OF WORLD WAR II CLAIMS. THIS PROBLEM CONTINUES TO DRAG ON WITHOUT RESOLUTION. IT IS DEMORALIZING TO THOSE WHO HAVE WAITED PATIENTLY TO BE COMPENSATED FOR THE SUFFERING AND DAMAGE THEY ENDURED DURING THE WAR, AND IT IS SHAMEFUL THAT JUST CLAIMS ARE BEING DENIED. SOME PEOPLE CAN NEVER BE COMPENSATED FOR THEY HAVE DIED DURING THIS INTERMINABLE PERIOD OF WAITING AND HOPING.

MELON FLY ERADICATION

"U.S.D.A MELON FLY TASK FORCE REPORT OF MAY 1983". REPRESENTED BY ANIMAL AND PLANT HEALTH INSPECTION SERVICE, PLANT PROTECTION AND QUARANTINE AND AGRICULTURE RESEARCH SERVICE, THE TASK FORCE VISITED THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS AND THE GOVERNMENT OF GUAM TO ASSESS THE MELON FLY INFESTATION. THE MELON FLY IS A MAJOR PEST OF AGRICULTURAL CROPS. AT THE CULMINATION OF THE TASK FORCE'S ASSESSMENT TRIP, THEY ESTIMATED THAT IT WOULD COST \$300,000 FOR ROTA AND \$2,000,000 FOR GUAM TO CONDUCT A MELON FLY ERADICATION CAMPAIGN. WE WOULD LIKE TO REQUEST YOUR ASSISTANCE IN APPROPRIATING THE NECESSARY FUNDS TO THE UNITED STATES DEPARTMENT OF AGRICULTURE TO CONDUCT THIS ERADICATION PROGRAM. WE UNDERSTAND THAT THE FUNDS ARE NOT INCLUDED IN THE DEPARTMENT'S BUDGET SUBMISSION IN FY 1985.

CONCLUSION

MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE, WE HAVE SUBMITTED TO YOU A LONG LIST OF ADDITIONAL FUNDING REQUESTS WHICH THE COMMONWEALTH OF THE NORTHERN MARIANAS CONSIDERS TO BE VITAL TO OUR SOCIAL AND ECONOMIC DEVELOPMENT. THE TWO EXTREMELY IMPORTANT AND CRITICAL FUNDING REQUESTS ARE FUNDS FOR THE HOSPITAL AND PUBLIC HEALTH CENTERS AND WATER SYSTEM. WE HAVE TRIED OUR BEST TO FIND LOCAL FUNDING THROUGH SUBSTANTIAL INCREASES IN UTILITY RATES AND COLLECTION OF NEW TAXES, BUT WE STILL HAVE A LONG WAY TO GO. WITHOUT PROPER INFRASTRUCTURE PROJECTS IN PLACE, WE WILL NEVER BE ABLE TO DEVELOP THE ECONOMIC RESOURCES NEEDED TO MEET OUR FINANCIAL RESPONSIBILITIES AS A SELF-GOVERNING COMMONWEALTH WITHIN THE AMERICAN COMMUNITY.

THANK YOU FOR THE OPPORTUNITY TO APPEAR BEFORE YOUR COMMITTEE.

ADDENDUM

COMMONWEALTH HEALTH CENTER PROJECT COST SUMMARY

I. Package No. 1	\$ 502,806
Note: Change Orders 1, 2 and 3 are included in this total amount. This construction work is on-going and may continue until the end of April.	
II. Packages Nos. 2, 3, 4, 6, 7, 8 and 9	13,700,502
Note: This total amount is based on the 3/12/84 announcement to award the various packages	
III. Package No. 5	100,000
Note: This Package was excluded from previous bidding. It is extended to cover equipment installations. The current plan, however, is to require suppliers to install their own respective products. This total is the Construction Management (CM) firm's original Guaranteed Maximum Price (GMP) estimate.	
IV. Package No. 10 - Fixed Equipment (Group I)	2,000,000
Note: This is CM's original estimate under GMP proposal. The Package has not yet gone out for bid. Bid documents are being reviewed to effectuate the "single source" requirements for procurement of Herman Miller Casework.	
V. Contingency	
Note: This is included in original GMP proposal.	1,000,000

VI. General Conditions Expenses	2,020,250
Note: This is included in original GMP proposal.	
VII. CM's Fees	1,842,000
Note: This is included in CM's GMP proposal.	
VIII. A/E Fees and Reimbursables (Const. Phase)	476,510
IX. CNMI Management and Administrative (Const. Phase)	<u>446,250</u>
Subtotal	<u>\$ 22,088,318</u>
X. Telephone System	300,000
Note: This is Micronesian Telecommunication/Hawaii Telephone's preliminary estimate. Final proposal is pending--it may come after a "notice of award" is issued to them.	
XI. Movable Equipment (Group II and III)	5,970,000
Note: This total is the A&E's preliminary cost estimate as of 4/5/84. This section consists of furnishings, food service and medical equipment.	
XII. Start-up Staffing Costs	<u>1,800,000</u>
Subtotal	<u>\$ 8,070,000</u>
Grand Total	<u>\$ 30,158,318</u>
Total Authorized Project Budget	\$ 30,000,000

NOTE: This grand total included all construction phases, Groups II and III equipment, telephone system, and the A&E/CM's fees and reimbursables. No allowance is made to cover price escalations for items VII (telephone system) and extension of construction period due to delays.

a. Total Project Construction Budget	22,088,318
b. Amount Appropriated to Date	20,000,000
c. Total Cost CM's Responsibility	21,165,558
d. CM'S Original GMP Proposal	24,302,250

Review of Melon Fly Eradication Alternatives for the Territory of Guam and the Commonwealth of the Northern Mariana Islands (CNMI)

In response to resolutions by the Sixteenth Guam Legislature, the Third Northern Mariana Commonwealth Legislature, and invitations by the Governor of the Territory of Guam and CNMI, a U.S. Department of Agriculture (USDA) review group visited the territories of Guam and CNMI from May 24, 1983, to June 2, 1983, to study the prospects for eradicating the melon fly from Guam and CNMI. Members of the USDA team from Plant Protection and Quarantine (PPQ) of the Animal and Plant Health Inspection Service (APHIS) and the Agricultural Research Service (ARS) included:

E. J. Stubbs, PPQ/APHIS, Hyattsville, Maryland
R. H. Kobayashi, PPQ/APHIS, Honolulu, Hawaii

W. L. Redman, PPQ/APHIS, Honolulu, Hawaii
 D. L. Chambers, ARS, Gainesville, Florida
 J. E. Gilmore, ARS, Honolulu, Hawaii

In visiting both the CNMI and Guam, the team met with representatives of the legislative and executive branches of Government at each location. In Guam, team members also discussed the situation with officials of the Department of Agriculture, the College of Agriculture, and the Cooperative Extension Service. On Saipan, CNMI, the team visited with officials of the Department of Natural Resources. Islandwide tours, meetings with growers, and visits to farms were conducted on Guam, Saipan, and Rota, with observations of trapping needs on Guam and Rota. Particular attention was also given to cultivated and wild hosts, topography, and accessibility of remote areas.

Throughout the review team's assessment, it was apparent to the members that the most important element in any eradication effort would be the commitment, dedication, and teamwork of local officials and citizens of both Guam and CNMI. To succeed, the effort must be carefully coordinated by the two Governments in every phase. The local expectation was that USDA would find the funds or generate new funds to move in and carry out the program. The team members pointed out, however, that the Department does not have sufficient flexibility in unobligated funds to permit an undertaking of this magnitude. Also, generation of new funds would be unlikely within the desired time frame. Therefore, it was pointed out that support for an eradication program would need to be generated at the local level. Although USDA is not now in a position to give financial assistance to an eradication effort, team members found many areas where USDA can provide planning and technical assistance. For example, technical assistance can be provided as to trap type, number of traps per unit area, habitats best suited for trap deployment, and guidance on the servicing of traps.

Planning Considerations

Team members discussed with the Guam/CNMI Task Force the extensive planning requirements that could encompass up to 2 years of preprogram preparation. This amount of time could be needed to complete the environmental assessment for the Environmental Impact Statement (EIS) and to obtain experimental use permits for any restricted pesticides that may be used.

An environmental assessment must include detailed consideration of effects on the quality of the human environment and the effect of the islands' topography on carrying out the program. Also to be examined are potential program effects on endangered and threatened species, urban and rural ecosystems, including wildlife found in both fresh and salt water, and water quality.

Another important consideration in the planning process is a precise identification of pest hosts in wild, agricultural, and urban areas. Throughout the planning process, USDA should be able to provide valuable counsel and assistance.

Finally, it will be imperative to involve the military in the planning and survey work since there are several sizeable military reservations on Guam that may harbor both wild and cultivated melon fly host plants as well as the melon fly itself. Access to such areas will be a prerequisite to the success of the program. The military also represents a potential source of personnel, aircraft, and other equipment that could be used at substantial savings in operational costs, if their support can be enlisted.

Technology Options

Choosing the means to carry out an eradication program will involve choices of technology in the areas of survey, eradication, and regulatory measures.

Survey—This is an area that needs to be addressed immediately so that a reliable assessment can be made of the extent and distribution of the melon fly and the seasonal fluctuations in population levels as well as host distribution and abundance. A grid arrangement with one trap per square mile should be sufficient to meet immediate needs during the rainy season. Although several kinds of traps could be useful, the review team feels the Steiner trap is the most efficacious for the melon fly if a sufficient number can be made available for both Guam and Rota. If the Steiner trap is not available, the

next best is the Jackson trap, which can be furnished by USDA. USDA can also supply guidelines for trappers and trapping supervisors.

Eradication—Perhaps the widest array of choices is available in this aspect of the program. Options identified by the team members are:

1. Bait spray—This involves the use of a mixture of an attractant (protein hydrolysate) and toxicant (malathion) (80-20 mix) applied at the rate of 600 pounds per square mile of area treated per application. Both ground and aerial applications would be required and, depending on the strategy used, about 12 to 15 applications at weekly intervals would be needed.
2. Male annihilation—This technique involves the use of the melon fly male attractant (Cuelure) mixed with either malathion or dieldrin and incorporated with a number of optional substrates and then distributed over the target area to attract and kill the males. Females are then left unfertilized and unable to reproduce. These formulations can be applied by ground or air at about 1 month intervals and offer the advantage of distributing only small quantities of toxicant into the environment compared with conventional insecticide applications.

Substrates that lend themselves to the male annihilation technology are:

a. Min-U-Gel, a thickening agent which can be applied in low volume as a modified spray form or in squirts. Primary advantages are ease of handling and providing numerous point sources of bait-toxicant in relatively even coverage.

b. Fiberboard wafers consisting of wallboard cut into 2- by 2-inch squares impregnated with the combination lure-toxicant and dropped by air at discrete intervals in grid fashion over the target area. These provide much larger point sources of lure-toxicant than with the Min-U-Gel thickened formulation but at wider intervals.

c. Cotton string or twine impregnated with the lure-toxicant mixture cut into lengths of about 6 inches and dropped by air over the target area as with the fiberboard wafers. The string offers the advantage of being biodegradable and thus does not in itself become an environmental pollutant.

3. Host limitation—Melon fly populations can be reduced significantly by not planting known hosts and by the removal of wild hosts such as bitter melon. The planting of cultivated hosts might be continued under a regime of strict fly control by the growers.

4. Sterile flies—This technology involves mass rearing of melon flies in the laboratory, sterilizing them in the pupal stage by exposure to gamma irradiation, and releasing them at about weekly intervals, either in the pupal or adult stages in the target area in numbers large enough to overflow the wild population by at least 100:1. Adult releases can be made by ground or aerial means, while the pupal releases are more effective from ground release points. The advantages of this technology are that it is noninsecticidal and is perhaps the most effective of the available technologies for eradication of low-level populations. The disadvantages are that it is a highly sophisticated technology requiring well-trained personnel for proper application. Sterile fly releases also may require considerable capital investment to provide the facilities for rearing, sterilizing, and emerging the sterile flies.

Regulatory Measures—The team members felt that USDA, with its experience and expertise in this phase, could be especially helpful to the Guam/CNMI effort. It was noted that the Federal regulation and quarantine that help protect Guam and CNMI from exotic pest infestations are in need of review and updating. For example, the Federal fruit and vegetable quarantine allows fresh watermelon and squash from Japan to enter Guam; also, the Federal quarantine does not recognize CNMI as part of the United States. In fact, manual instructions list the Mariana Islands as foreign. Discrepancies such as these need to be addressed before or during early planning stages of an eradication protection program. The USDA melon fly action plan, developed for use in the continental United States, can be furnished to a technical advisory committee who could review it and adapt it to local conditions as appropriate.

Recommended Approaches

The review team members identified two approaches that deserve special consideration by the Governments of the CNMI and Guam.

The first approach would combine a pilot test of male annihilation on Rota with an integrated approach to population reduction on Guam. Male annihilation as a means of eradicating the melon fly has not been demonstrated on an operational basis, and the feasibility of this approach needs to be determined. Thus, there is some degree of risk of failure involved in this approach since it is still experimental. However, it is the least expensive of the available technologies for eradication and does have known capability for a high degree of suppression. Moreover, Rota, with a geographic area of only 33 square miles and reasonably good isolation from Guam, provides an excellent situation for a pilot test of this type. ARS scientists in Hawaii would be interested in cooperating with local officials on such a pilot test and could provide technical assistance in planning and monitoring the operational program. In the event it is concluded from the pilot test that eradication *per se* cannot be achieved with the male annihilation approach, another technology such as bait sprays or the sterile insect technique can be utilized to achieve final eradication.

Possible methods for use on Guam include limited bait spray applications, male annihilation, and sterile flies. Of course, the problems of source and quality for sterile flies, facilities to produce them, and the availability of qualified, experienced, and trained personnel to administer sterile fly dispersal would have to be addressed. The experimental eradication effort on Rota would need to be accompanied by early population reduction on Guam and a quarantine to protect Rota from reintroduction until eradication could be accomplished on Guam.

The second possible approach recommended by the review team would be a combined program with the goal of eradicating the pest simultaneously from both Guam and Rota. With this approach, efforts would proceed at essentially the same pace on both islands.

Cost Estimates

Cost estimates are difficult to project without backup information as to melon fly distribution and abundance, seasonal fluctuations in population levels, and cultivated and wild host plants available and their distribution and abundance. On the basis of previous staff knowledge of the Island of Rota, estimates are that the cost of eradication by male annihilation would be approximately \$150,000, while eradication by application of bait sprays would be about \$240,000. The cost of eradication by the use of sterile flies cannot be projected accurately without addressing the potential source of the sterile flies. If sterile flies can be provided free of capital investment costs (rearing and emergence facility construction or lease), the eradication costs for this technology on Rota would be on the order of \$300,000.

Guam presents a much more complex situation than Rota, owing to its larger size, urban settings, military reservations, etc. Until the survey data on the melon fly and its hosts as well as the environmental information have been collected and some degree of operational planning has been accomplished, it will not be possible to project costs for eradication on Guam with any degree of precision. A ball park estimate of \$2 million is offered for planning purposes. This estimate, of course, is exclusive of capital costs for rearing and emergence facilities for the sterile flies.

Time Estimates

The time required for a Guam/Rota melon fly eradication program would depend on a number of factors such as availability of funding, developing of the required environmental impact assessment and the subsequent EIS, securing the necessary Experimental Use Permits, arranging for sterile fly production, operational strategy and approach to be employed, etc. The pilot test on Rota would require about 6 to 12 months for the initial survey to determine the distribution of melon fly and its hosts—about 6 months for completion of the operational program for eradication and about a year beyond the operational program for monitoring purposes to ensure eradication. Once the initial surveys are initiated, about 2 to 2 1/2 years would be required to complete the eradication effort on Rota. The more complex situation on Guam, particularly with regard to the preparation of the EIS, will likely add 1 or 2 years to the time frame as compared with Rota. This would project the time frame for Guam to about 3 to 4 years for completion of an eradication program.

I AM PEDRO P. TENORIO, GOVERNOR OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS. ON BEHALF OF THE GOVERNMENT AND PEOPLE OF THE NORTHERN MARIANAS, I EXTEND TO YOU, MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE, OUR APPRECIATION FOR THE HONOR AND PRIVILEGE TO PRESENT TESTIMONY ON THE PROPOSED FY 1985 BUDGET FOR THE NORTHERN MARIANAS.

THE PEOPLE OF THE NORTHERN MARIANA ISLANDS ARE GRATEFUL TO THE UNITED STATES GOVERNMENT AND, IN PARTICULAR, TO THE CONGRESS FOR THEIR UNDERSTANDING, THEIR PATIENCE AND THEIR CONTINUING GENEROSITY IN SUPPORT OF OUR GOVERNMENT NEEDS FOR FINANCIAL ASSISTANCE. THIS ANNUAL VISIT TO OUR NATION'S CAPITOL HAS SOMETIMES BEEN CHARACTERIZED AS A PILGRIMAGE TO SIMPLY MAKE OFFICIAL OUR REQUEST FOR MONEY FROM THE UNITED STATES, PURSUANT TO OUR POLITICAL STATUS AGREEMENT. WE HAVE ALWAYS ENDED UP REQUESTING MORE THAN WHAT WAS ORIGINALLY INTENDED AS A UNITED STATES OBLIGATION ON GUARANTEED FINANCIAL ASSISTANCE UNDER UNITED STATES PUBLIC LAW 94-241, THE "COVENANT TO ESTABLISH A COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IN POLITICAL UNION WITH THE UNITED STATES OF AMERICA". MR. CHAIRMAN, WE ARE HERE AGAIN TO ASK FOR YOUR HELP, AND THIS YEAR'S FINANCIAL REQUESTS ARE NOT RADICALLY DIFFERENT FROM PREVIOUS YEARS'; THE AMOUNTS ARE SOMEWHAT DIFFERENT, BUT OUR PRIORITIES HAVE BEEN CONSISTENT, UNIFORM AND THOROUGHLY DEFINED AND JUSTIFIED.

WE DO NOT WANT TO BE CHARACTERIZED AS BEGGARS, NOR DO WE APPRECIATE BEING CRITICIZED AS HAVING "EYES BIGGER THAN OUR STOMACHS", AS ONE ADMINISTRATION OFFICIAL SAID ABOUT THE NORTHERN MARIANAS IN REFERENCE TO OUR DRAWN-OUT LIST OF PRIORITIES AND NEEDS LAST YEAR. WE WISH THAT WE DID NOT HAVE TO COME TO WASHINGTON EVERY YEAR TO REQUEST FUNDS TO OPERATE OUR SCHOOLS, HOSPITAL AND DISPENSARIES, OUR POWER PLANTS, OUR WATER AND SEWERAGE SYSTEMS AND OTHER PUBLIC SERVICES. HOWEVER, AT THIS POINT IN TIME, WE FOUND THAT WE HAVE NO OTHER RECOURSE AVAILABLE THAN TO APPEAL TO THE UNITED STATES CONGRESS FOR ASSISTANCE. I WISH TO EMPHASIZE THAT HISTORICALLY IT IS THE UNITED STATES CONGRESS THAT HAS HEARD AND RESPONDED TO OUR REQUESTS FOR FUNDS AND OTHER ASSISTANCE. IN THE RECENT PAST, WE HAVE HAD LITTLE OR NO COOPERATION OR SUPPORT FROM THE ADMINISTRATION ON OUR FUNDING REQUESTS FOR

IMPORTANT AND CRITICAL PUBLIC SERVICES AND PROJECTS. NOW WITH MR. MONTOYA AS THE NEW ASSISTANT SECRETARY IN THE OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS, WE HAVE HIGH HOPES AND EXPECTATIONS THAT OUR REQUESTS WILL BE GIVEN THE NEEDED ATTENTION THEY DESERVE.

WE KNOW OF NO OTHER UNITED STATES TERRITORY OR STATE THAT WAS GIVEN A TIMETABLE TO GROW UP AND MATURE WITHIN SEVEN YEARS. THE NORTHERN MARIANAS WAS GIVEN ONLY SEVEN YEARS TO PREPARE ITSELF TO BE FINANCIALLY SELF-SUSTAINING, TO DEVELOP ECONOMICALLY, SOCIALLY, EDUCATIONALLY AND POLITICALLY, A PERIOD FOR WHICH TIME IT HAS GUARANTEED FINANCIAL ASSISTANCE FROM THE UNITED STATES. LET ME STATE, FOR THE RECORD, THAT WE HAVE TRIED OUR VERY BEST TO LIVE UP TO OUR SEVEN YEAR COMMITMENT, TO DEMONSTRATE AFTER SEVEN YEARS THAT WE ARE READY TO COMPLETELY FINANCE OUR LOCAL GOVERNMENT, TO DEVELOP OUR UTILITIES AND ISLAND INFRASTRUCTURE TO THAT OF A LEVEL COMPARABLE TO OTHER UNITED STATES TERRITORIES AND STATES. WE HAVE NOT ACHIEVED OUR OBJECTIVE OF SELF-RELIANCE AND FINANCIAL INDEPENDENCE. WE MUST, REGRETFULLY, INFORM YOU THAT WE WILL CONTINUE TO REQUIRE THE HELP OF THE UNITED STATES GOVERNMENT IN ORDER TO ACHIEVE THAT EXTREMELY DIFFICULT OBJECTIVE.

ALLOW ME TO PROVIDE YOU WITH FACTS AND FIGURES THAT WILL BRIEFLY DESCRIBE WHERE WE WERE THEN AND WHERE WE ARE NOW WITH RESPECT TO GROWTH AND ACHIEVEMENT OVER THE PAST SEVEN YEARS SINCE THE INSTALLATION OF THE NORTHERN MARIANAS CONSTITUTIONAL GOVERNMENT AND THE IMPLEMENTATION OF THE COVENANT IN JANUARY 1978. IN 1978, OUR LOCAL TAX COLLECTION AMOUNTED TO ONLY ABOUT THREE MILLIION DOLLARS, OR ABOUT 14% OF OUR TOTAL GOVERNMENT FUNDS. IN LESS THAN SEVEN YEARS, WE HAVE RAISED OUR LOCAL REVENUES TO CLOSE TO TWENTY-ONE MILLION DOLLARS, OR ABOUT 45% OF THE TOTAL GOVERNMENT FUNDS, THROUGH ENACTMENT OF MORE PROGRESSIVE TAXATION SCHFMES THAT ARE MORE PRACTICAL TO OUR ECONOMIC SETTING. IN 1978, THE PREVAILING UTILITY CHARGES FOR ELECTRICITY AND WATER WERE 3.5 CENTS PER KILOWATT HOUR AND 25 CENTS PER THOUSAND GALLONS OF WATER RESPECTIVELY. BUT ALTHOUGH WE FULLY RECOGNIZED THE POLITICAL IMPACTS AND REPERCUSSIONS THAT RAISING UTILITY CHARGES WILL HAVE ON OUR ADMINISTRATION, SINCE 1982, WE HAVE NEVERTHELESS INCREASED BOTH

RATES BY 100%. WE HAVE RAISED OUR REVENUE IN UTILITIES FROM LESS THAN TWO MILLION DOLLARS IN 1978 TO OVER FOUR MILLION DOLLARS NOW. UNDER OUR LOCAL PUBLIC LAW 3-11, WE HAVE INCREASED PRACTICALLY ALL CONCEIVABLE AREAS OF TAXATION AND FEES FROM BUSINESS GROSS RECEIPT TAXES TO INDIVIDUAL INCOMES AND SALARIES; EVEN AUTOMOBILE LICENCING FEES. THIS ONE SINGLE LEGISLATION HAS GREATLY HELPED US IN INCREASING OUR LOCAL REVENUES, BUT HAD ALSO GREATLY CONTRIBUTED TO OUR DEFEAT IN OUR LAST ELECTION FOR THE LEGISLATURE. TOURISTS AND OTHER VISITORS HAVE INCREASED FROM 91,372 IN 1978. THIS YEAR, OUR PROJECTION IS ABOUT 143,000 VISITORS, MORE THAN 85% ARE FROM JAPAN. IN 1978, THERE WERE 476 BUSINESS ESTABLISHMENTS; NOW, WE HAVE MORE THAN 1,400 BUSINESS FIRMS. IN 1978, HOTEL ROOMS NUMBERED ABOUT 740; NOW, WE HAVE CLOSE TO 820 ROOMS WITH NEW CONSTRUCTION ON THE WAY FOR AN ADDITIONAL 80 ROOMS. OUR POWER, WATER AND SEWERAGE SYSTEMS HAVE ALSO EXPANDED DRAMATICALLY DUE TO NEW CONSTRUCTION FROM FUNDS MADE AVAILABLE TO US FROM THE UNITED STATES CONGRESS. WE CAN SAFELY INFORM YOU THAT NOW MOST HOUSEHOLDS HAVE POWER AND WATER SERVICES; WHEREAS, PRIOR TO 1978, SUCH SERVICES WERE LIMITED TO VILLAGES CLOSE TO THE CENTRAL POWER AND WATER SOURCES. IN PAST YEARS, WE HAVE HAD TO TELL THE TOURISTS NOT TO COME TO OUR ISLANDS BECAUSE OF THE INADEQUACY OF OUR UTILITIES. NOW, WE SOMETIMES HAVE TO TELL THEM TO GO TO GUAM BECAUSE WE DON'T HAVE ENOUGH HOTEL ROOMS. DESPITE ALL THESE MARKED IMPROVEMENTS IN OUR UTILITIES, MUCH WORK REMAINS TO BE DONE TO INSTALL USER METERS, AND REPAIR AND REPLACE OLD EXISTING POWER AND WATER SYSTEMS THAT ARE OBSOLETE AND UNECONOMICAL TO MAINTAIN OR KEEP OPERATIONAL. FEDERAL LAWS AND RULES AND REGULATIONS COMPEL US TO IMPROVE OUR PRIMARY PUBLIC UTILITIES TO MEET PUBLIC HEALTH AND HOUSING LOANS MINIMUM PROPERTY STANDARDS. WE NEED FUNDS TO UNDERTAKE SUCH REQUIRED IMPROVEMENTS IF WE ARE TO TAKE ADVANTAGE OF FEDERAL FUNDS FOR UTILITIES AND PRIVATE HOUSING CONSTRUCTION LOANS. WITH THE PROSPECT FOR RAPID GROWTH OF THE PRIVATE SECTOR, IN BOTH INVESTMENT AND NEW HOME CONSTRUCTION, OUR UTILITIES MUST NECESSARILY CONTINUE TO BE IMPROVED, UPDATED AND MAINTAINED PROPERLY. WE HAVE BEEN FORTUNATE TO BE VISITED BY NUMEROUS FEDERAL OFFICIALS OVER THE PAST FEW YEARS. THEY ARE WITNESSES TO THE INADEQUACIES OF OUR UTILITY SYSTEM, FOR ALTHOUGH THEY STAYED IN PLUSH HOTELS, THEY TOO

FAILED TO TAKE SHOWERS AFTER A LONG HARD DAY'S WORK, FOR THE WATER WAS SHUT DOWN IN THE EVENING.

THIS YEAR, AS IN PREVIOUS YEARS, OUR PRIORITIES ARE THE COMPLETION OF THE NEW COMMONWEALTH HEALTH CENTER, WHICH IS NOW UNDER ACTIVE CONSTRUCTION (SEE PHOTOS), AND THE IMPROVEMENT OF OUR WATER SYSTEMS, OTHER UTILITIES, HIGHWAYS, SEA PORTS AND HARBORS. THIS YEAR, WE ARE REQUESTING THE FULL AUTHORIZED AMOUNT FOR THE HOSPITAL CONSTRUCTION, TO PURCHASE NECESSARY EQUIPMENT AND FURNISHINGS FOR THE HOSPITAL, AS WELL AS FOR START-UP COST AND MAINTENANCE, FOR RECRUITMENT OF NEW MEDICAL PERSONNEL AND FOR SHORT AND LONG-TERM MEDICAL AND ADMINISTRATIVE TRAINING OFF-ISLAND FOR HOSPITAL PERSONNEL. LET ME REPEAT THAT WE ARE ALSO REQUESTING, AS A MATTER OF EXTREME URGENCY, FUNDS TO CONTINUE TO UPGRADE OUR WATER SYSTEMS. WE ARE HAPPY TO INFORM YOU THAT THE SAIPAN AIRPORT WATER CATCHMENT SYSTEM FUNDED BY THE UNITED STATES CONGRESS IS NEARING COMPLETION, AND WHEN COMPLETED IN SEPTEMBER THIS YEAR, IT WILL PROVIDE SAIPAN WITH GOOD QUALITY RAINWATER AMOUNTING TO OVER 600,000 GALLONS PER DAY (SEE PHOTOS).

FOR FY 1985, THE COVENANT PROVIDES A TOTAL OF \$29,027,000, WHICH IS COMPRISED OF \$26,729,000 BASE APPROPRIATION AND AN ESTIMATED AMOUNT OF \$2,298,000 IN SUPPLEMENTAL REQUESTS FOR INFLATION ADJUSTMENT. THIS IS APPORTIONED AS FOLLOWS: \$17,105,000 FOR BASIC GOVERNMENT OPERATIONS; \$8,293,000 FOR CAPITAL IMPROVEMENT PROJECTS AND \$3,629,000 FOR ECONOMIC DEVELOPMENT PROJECTS. WHILE WE RESPECTFULLY ACKNOWLEDGE THE HOUSE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS' PROPOSED ADDITIONAL \$1,600,000 TO CONTINUE THE CONSTRUCTION OF THE HOSPITAL REPLACEMENT PROJECT, THE AMOUNT IS INSUFFICIENT TO PROVIDE FOR THE PLANNED EARLY PURCHASE OF MEDICAL EQUIPMENT, KITCHEN EQUIPMENT, FURNISHINGS, RELATED OPERATIONS, MAINTENANCE AND START-UP COSTS. WITHOUT THE REQUESTED FUNDS, WE WOULD HAVE A BRAND NEW HOSPITAL BUT NOT THE NECESSARY EQUIPMENT AND SUFFICIENT MEDICAL, ADMINISTRATIVE AND MAINTENANCE PERSONNEL TO OPERATE THE HOSPITAL.

COMMONWEALTH HEALTH CENTER PROJECT

THE TOTAL PROJECT COST OF THE COMMONWEALTH HEALTH CENTER, INCLUSIVE OF SITEMARK, GENERAL CONSTRUCTION, WATERPROOFING, ROOFING, MECHANICAL, ELECTRICAL, EQUIPMENT INSTALLATION, LANDSCAPING, FIXED EQUIPMENT PURCHASES AND THE PURCHASE OF COLLATERAL EQUIPMENT AND FURNISHING (GROUP II AND III MOVEABLE EQUIPMENT), IS ESTIMATED TO BE \$30,185,760. THE CENTER, WHEN COMPLETED, WILL HAVE 74 BEDS, WITH CAPACITY TO EXPAND TO 100 BEDS, AND WILL PROVIDE IN-PATIENT NURSING, ANCILLARY, OUT-PATIENT CLINICS, PUBLIC HEALTH CLINICS, DENTAL CLINICS AND SUPPORT AND SUPPLY FACILITIES. IT WILL HAVE EMERGENCY POWER AND WATER SYSTEMS TO GUARD AGAINST TYPHOONS, PERIODIC BROWNOUTS, AND OTHER NATURAL DISASTERS.

IN THE LAST TWO YEARS, \$20,000,000 OF CONSTRUCTION FUNDS WERE APPROPRIATED FOR THIS CRITICAL PROJECT. A COST SUMMARY INDICATING WHERE THESE APPROPRIATIONS WERE OBLIGATED IS ATTACHED TO THIS STATEMENT (ATTACHMENT A). I WISH TO NOTE THAT TOTAL PROJECT COST IS EXPECTED TO EXCEED THE APPROPRIATION OF \$20,000,000. WE ARE REQUESTING THAT \$10,000,000 BE PROVIDED IN FY 1985 IN ORDER TO FUND THE CURRENT SHORTFALL, TO STAVE OFF RISING COSTS TO PLAN FOR THE OPENING AND TO COMPLETE THE OVERALL PROJECT WITHIN THE CONTRACTUAL TIMEFRAME. IT IS THE CONSIDERED RECOMMENDATION OF THE COMMONWEALTH GOVERNMENT AND THE PROFESSIONAL ENGINEERING, ARCHITECTURAL AND CONSTRUCTION MANAGEMENT FIRMS THAT IT IS VITAL THAT THE REMAINING \$10,000,000 REQUIRED TO RENDER THE FACILITY OPERATIONAL BE APPROPRIATED IN FY 1985. THIS WILL ALLOW US TO PURCHASE MOVEABLE EQUIPMENT EARLY, AND WILL THUS PREVENT SIGNIFICANT COST ESCALATION DUE TO INFLATION, AND WILL ALSO ENABLE THE COMMONWEALTH GOVERNMENT TO RECRUIT, TRAIN AND PREPARE FOR THE OPENING OF THE CENTER SCHEDULED FOR SEPTEMBER OR OCTOBER 1985. MORE IMPORTANTLY, FUNDING OF THIS REQUEST WITH THE \$10,000,000 WILL ENSURE THAT THE END RESULT WILL NOT BE A FACILITY WHICH IS EMPTY OF REQUIRED MEDICAL EQUIPMENT, TRAINED PERSONNEL AND FACILITY OPERATIONS AND MAINTENANCE PERSONNEL. PLANNING FOR MAINTENANCE OF THE HEALTH CENTER ON A CONTINUING BASIS IS AN IMPORTANT ASPECT OF OUR HEALTH CARE PROGRAM, AS WE WANT TO ENSURE THAT THE FACILITY WILL LAST FOR A LONG TIME. TOO MANY TIMES IN THE

PAST, EXPENSIVE PUBLIC PROJECTS FINANCED BY CONGRESS DETERIORATED QUICKLY BECAUSE OF THE LACK OF PROPER MAINTENANCE. THE \$10,000,000 BEING REQUESTED IS TO BE SPENT AS FOLLOWS:

1. MOVEABLE EQUIPMENT, INCLUDING FURNISHINGS, MEDICAL EQUIPMENT AND FOOD SERVICE EQUIPMENT (\$5,970,000)
2. COSTS FOR START-UP OF THE NEW HOSPITAL FOR NEW PERSONNEL, TRAINING PROGRAMS FOR NURSES AND MEDICAL PERSONNEL OFF-ISLAND, FOR HOSPITAL OPERATIONS AND MAINTENANCE PERSONNEL (\$1,800,000)
3. COST FOR PURCHASE AND INSTALLATION OF TELEPHONE AND COMMUNICATION SYSTEM AND FOR MAINTENANCE (\$300,000)
4. A/E FEES DURING CONSTRUCTION AND CNMI PROJECT ADMINISTRATION (\$922,760)
5. SHORTFALL FROM PRIOR (\$20,000,000) APPROPRIATION TO MEET ALL BID PACKAGES, TELEPHONE SYSTEM, MOVABLE EQUIPMENT, AND TRANSITIONAL COSTS IS ESTIMATED AT \$10,185,000 (SEE ATTACHMENT A)

OPERATIONAL PLAN AND STATUS

THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS HAS THE OPPORTUNITY TO BE THE SITE OF THE FINEST HEALTH CARE FACILITY IN THE PACIFIC, EXCLUDING HAWAII. THE PHYSICAL PLANT SOON TO BE BUILT AND THE EQUIPMENT IT WILL CONTAIN WILL BE FIRST-RATE. WE BELIEVE THAT A MANDATORY MAINTENANCE PLAN IS ESSENTIAL TOWARD ENSURING THAT THE NEW HOSPITAL IS KEPT IN GOOD WORKING CONDITION.

IN THE FINAL ANALYSIS, HOWEVER, PEOPLE ARE WHAT MAKE AN ORGANIZATION SUCCESSFUL. WITHOUT TRAINED, EXPERIENCED, COMMITTED PEOPLE, THE FINEST FACILITIES IN THE WORLD ARE USELESS. AND, WITHOUT A PLAN TO ORGANIZE THE EFFORTS OF THESE PEOPLE, THE OPERATION WILL BE INEFFECTIVE AND INEFFICIENT. A SUBSTANTIAL PORTION OF THIS YEAR'S REQUEST FOR THE HOSPITAL (\$1,800,000) IS EARMARKED FOR STAFFING AND MAINTENANCE.

TO ENSURE THAT THE NEW COMMONWEALTH HEALTH CENTER RUNS PROPERLY, IS CORRECTLY MAINTAINED AND DELIVERS THE CARE FOR WHICH IT WAS INTENDED, A COMPREHENSIVE ACTION PLAN HAS BEEN DEVELOPED. THIS SCHEDULE OUTLINES THE VARIOUS STEPS TO BE TAKEN. THE UNITED STATES PUBLIC HEALTH SERVICE AND THE OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS ARE INVOLVED IN THE DEVELOPMENT OF THIS IMPORTANT PLAN, AND THE DEVELOPMENT AND REVIEW IS PROCEEDING ACCORDING TO INTENT.

COMPONENTS OF THE ACTION PLAN

1. STAFFING/MANPOWER - THIS DETERMINES THE STAFFING NEEDS OF THE HEALTH CENTER TO PROVIDE A BASIS FOR PROJECTING OPERATING COSTS, IDENTIFYING PERSONNEL SHORTAGES, CREATING RECRUITMENT AND TRAINING PLANS, AND ESTIMATING EDUCATIONAL NEEDS FOR THE FUTURE. THIS STEP WAS COMPLETED AND APPROVED ACCORDING TO SCHEDULE IN FEBRUARY 1984.

2. KEY MANAGERIAL PERSONNEL - THE CURRENT HOSPITAL ORGANIZATION LACKS NUMEROUS ESSENTIAL TECHNICAL AND MANAGERIAL STAFF MEMBERS REQUIRED TO OPERATE AN ACUTE CARE HOSPITAL. PROBLEMS RELATED TO THESE DEFICIENCIES WERE STUDIED; SOLUTIONS WERE DETERMINED AND APPROVED; AND THE PROCESS IS BEING IMPLEMENTED TO CORRECT THE SITUATION. THE MISSING ESSENTIAL MANAGERIAL AND TECHNICAL PERSONNEL HAVE BEEN IDENTIFIED, THE IMMEDIACY OF THEIR NEED TO THE OPERATION HAS BEEN PRIORITIZED, AND A RECRUITMENT AND HIRING EFFORT HAS BEGUN.

3. PERSONNEL RECRUITMENT/CLINICAL TRAINING (STEPS TO BE TAKEN) - PHASE ONE IDENTIFIES STAFF POSITIONS WHICH MUST BE ADDED TO OPERATE THE NEW FACILITY; PRIORITIZES NEEDS BY POSITION AND NUMBER; DETERMINES TIMEFRAMES FOR RECRUITMENT OF STAFF BY CATEGORY AND NUMBER ; SETS APPROPRIATE SALARY AND BENEFIT LEVELS FOR THE POSITIONS; IDENTIFIES FUNDING SOURCES FOR EACH RECRUITMENT PHASE; SPECIFIES METHODS AND RESOURCES FOR ATTRACTING ACCEPTABLE CANDIDATES; AND OUTLINES THE HIRING PROCESS. PHASE TWO DEVELOPS AND IMPLEMENTS AN APPROVED OFF-ISLAND CLINICAL TRAINING PROGRAM. PERSONNEL TO BE SENT FOR TRAINING ARE IDENTIFIED; TRAINING SITES, DATES AND CURRICULA ARE ARRANGED; COSTS FOR TRAINING ARE ESTABLISHED; SOURCES OF TRAINING FUNDS

ARE DETERMINED AND SECURED; AND PERSONNEL ARE SENT FOR TRAINING. BOTH PHASES ARE IN PROCESS. IMPLEMENTATION IS PROCEEDING ON SCHEDULE.

4. POLICIES/PROCEDURES - POLICIES AND PROCEDURES PREPARATION IS AN ON-GOING PROCESS WHICH WILL RESULT IN THE PRODUCTION OF A COMPLETE OPERATING MANUAL FOR THE NEW HEALTH CENTER. ADDITIONAL SPECIFIC POLICY AND PROCEDURE SETS ARE BEING DEVELOPED FOR EACH INDIVIDUAL DEPARTMENT. THE DESIGN AND REVIEW OF THE POLICIES AND PROCEDURES HAS BEEN UNDERWAY FOR MANY MONTHS. THIS STEP IS ON SCHEDULE.

5. INTERNAL PHYSICAL MAINTENANCE - THE HEALTH CENTER WILL BE EXTENSIVELY PROVIDED THROUGHOUT WITH MODERN, SOPHISTICATED, TECHNOLOGICALLY COMPLEX SYSTEMS AND EQUIPMENT. THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IS LOCATED THOUSANDS OF MILES FROM MOST MANUFACTURERS AND SUPPLIERS OF EQUIPMENT AND PARTS. PROPER MAINTENANCE OF THE FACILITY AND EQUIPMENT WILL HAVE TO BE LOCALLY DIRECTED FROM WITHIN THE ORGANIZATION. THERE MUST BE A SCHEDULED PREVENTIVE MAINTENANCE PROGRAM AND RAPID RESPONSES TO MALFUNCTIONS. THIS CALLS FOR EXPERIENCED, WELL-TRAINED ENGINEERING MANAGEMENT AND STAFF.

WORK ON THIS STEP HAS BEEN STARTED, EVEN THOUGH THE FACILITY WILL NOT BE COMPLETED UNTIL MID-1985. A LOCAL MECHANICAL ENGINEER WITH A DEGREE FROM PURDUE UNIVERSITY HAS BEEN HIRED AS MANAGER OF THE MAINTENANCE/PLANT ENGINEERING DEPARTMENT. HE IS STUDYING ALL ASPECTS OF THE NEW FACILITY DURING CONSTRUCTION. CONCURRENTLY, PLANS HAVE BEEN MADE TO ARRANGE FOR THE SERVICES OF A BIOMEDICAL ENGINEER FROM NEARBY GUAM ON A PART-TIME, AS-NEEDED BASIS. FUTURE ACTIONS WILL INCLUDE RECRUITMENT AND TRAINING OF STAFF PERSONNEL; DEVELOPMENT AND IMPLEMENTATION OF A PREVENTIVE MAINTENANCE PROGRAM; DETERMINATION OF DEPARTMENTAL AND HEALTH CENTER PARTS AND SUPPLIES NEEDS; ACQUISITION OF MATERIALS TO OPERATE THE SERVICE AND PROPERLY MAINTAIN THE FACILITY; AND CREATION OF A MECHANISM TO MONITOR PERFORMANCE. THE PROCESS IS AHEAD OF SCHEDULE. IT IS EXPECTED TO BE FULLY OPERATING ACCORDING TO PLAN.

6. OPERATIONAL FUNDING/BUDGETING - IDENTIFICATION OF OPERATIONAL EXPENSES FOR THE INSTITUTION IS BEING REFINED. THE GENERATION OF FUNDS IS BEING PLANNED. FULL IMPLEMENTATION OF THESE STEPS RESTS ON HAVING ACCURATE KNOWLEDGE OF THE STAFFING COMPLEMENTS AND MANAGEMENT SYSTEMS TO BE ADOPTED. THE ANNUAL OPERATING COSTS HAVE BEEN ESTIMATED. THESE ARE SHOWN IN THE SUBSEQUENT PAGES OF MY STATEMENT, WITH A LIST OF OPTIONAL SOURCES OF OPERATING FUNDS. STEPS ARE ALSO BEING TAKEN TO DEVELOP BUDGETING SYSTEMS AND INTERNAL CONTROLS. THESE INCLUDE ESTABLISHMENT AND OPERATION OF AN IN-HOUSE FINANCIAL OFFICE AT THE HEALTH CENTER; REDESIGN OF THE INSTITUTION'S ANNUAL AND MULTI-YEAR BUDGETARY PROCESSES; SETTING OF LONG-RANGE BUDGET PROJECTIONS; STRENGTHENING OF CREDIT AND COLLECTIONS SYSTEMS; AND CREATION AND MAINTENANCE OF ACCURATE STATISTICAL AND FINANCIAL DATA. THESE PROCEDURES ARE ON SCHEDULE. FURTHER DETAILS CONCERNING THE FINANCIAL ASPECTS ARE ON THE FOLLOWING PAGES.

CONCLUSION - THE ACTION PLAN IS IN EFFECT. IT HAS BEEN APPROVED BY OUR GOVERNMENT AND WE ARE HOPEFUL THAT THE UNITED STATES AGENCIES WILL ALSO APPROVE IT. ITS COMPONENT PARTS ARE BEING PRODUCED AS INTENDED. AS IT CONTINUES TO PROGRESS, THE END RESULTS WILL BE AN EFFICIENT OPERATION AND PROPERLY MAINTAINED FACILITY.

THE ACTION PLAN IS MOVING IN PHASES BECAUSE MANY OF ITS COMPONENTS DEPEND ON OTHERS CURRENTLY BEING IMPLEMENTED. SUCCESSFUL COMPLETION OF THE ACTION PLAN WILL MAKE IT POSSIBLE FOR THE PEOPLE OF THE NORTHERN MARIANA ISLANDS TO RECEIVE THE TYPE AND DEGREE OF CARE THAT THE HEALTH CENTER WAS ORIGINALLY DESIGNED TO OFFER. IMPLEMENTATION OF THE PROCESS WILL ENSURE THAT THE QUALITY OF THE OPERATION WILL MATCH THE EXCELLENCE OF THE PHYSICAL PLANT BEING CONSTRUCTED.

PRELIMINARY ESTIMATE OF ANNUAL OPERATING EXPENSES FOR CHC

PERSONNEL

Office of the Director	\$ 87,000	
Administrative Services	337,700	
Medical Staff	643,200	
Nursing Services	2,631,500	
Ancillary Services	532,600	
Support Services	<u>610,100</u>	\$4,842,100
SUPPLIES EXPENSE		1,200,000
MEDICAL REFERRALS		800,000
OTHER (Repairs, Recruitment, Contingencies)		<u>500,000</u>
TOTAL ESTIMATED ANNUAL EXPENSES		<u>\$7,342,100</u>

THESE ESTIMATES OF ANNUAL OPERATING EXPENSES ARE BASED ON THE ASSUMPTION THAT THERE WILL BE A FULL STAFFING COMPLEMENT AND A COMPLETELY OPERATIONAL HEALTH CENTER. THE COSTS ARE MINIMIZED DUE TO THE LACK OF DEBT SERVICE REQUIREMENTS FOR THE BUILDING AND EQUIPMENT AND BECAUSE SALARY LEVELS BY CATEGORY ARE SLIGHTLY LOWER THAN THOSE PAID IN THE UNITED STATES.

FUNDING OPTIONS

A NUMBER OF OPTIONS FOR FUNDING OPERATIONS HAVE BEEN IDENTIFIED. THESE ARE BEING EVALUATED AND DEVELOPED:

REGULAR ANNUAL APPROPRIATIONS FROM THE LEGISLATURE

COMMONWEALTH-SPONSORED HMO

CAPITATION TAX

REDUCTION IN REFERRAL COSTS THROUGH LOWERED NUMBER OF CASES

PRIVATE INSURANCE FOR PRIVATE SECTOR WORKERS

CO-PAYMENT INSURANCE PLAN FOR GOVERNMENT EMPLOYEES

PARTIAL FEE-FOR-SERVICE ARRANGEMENT

USE OF INTEREST INCOME FROM TINIAN LAND LEASE FUND

STRENGTHENED COLLECTION PROCEDURES

INCREASED MEDICAID REIMBURSEMENT AS A RESULT OF ADDED SERVICES AND
IMPROVED STANDARDS
RATE RESTRUCTURING

FINALLY, THE COMMONWEALTH IS MAKING ARRANGEMENTS WITH THE UNITED STATES PUBLIC HEALTH SERVICE FOR THE LOAN OF AN EXPERT IN PREPAID HEALTH INSURANCE PLANNING. THIS PERSON WILL RELOCATE TO THE NORTHERN MARIANAS FOR APPROXIMATELY ONE YEAR TO ASSIST IN THE OPERATIONAL FUNDING PREPARATIONS.

NEW PUBLIC HEALTH FACILITIES ARE UNDER CONSTRUCTION ON ROTA AND TINIAN THROUGH FUNDS MADE AVAILABLE BY THE HILL-BURTON DISPENSARY CONSTRUCTION PROGRAM. OUR GOVERNMENT WILL BE RECEIVING FROM THE UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES ABOUT \$1,400,000 FOR THE CONSTRUCTION OF TWO SEPARATE PUBLIC HEALTH CENTERS. CONSTRUCTION BIDS RECEIVED FOR BOTH TOTAL \$1,900,000, WHICH IS \$500,000 MORE THAN THE AVAILABLE FUNDING. FURTHER, TO REASONABLY EQUIP THE TWO CENTERS WITH MEDICAL EQUIPMENT, OFFICE FURNITURE AND MISCELLANEOUS SUPPLIES, WE NEED AN ADDITIONAL \$400,000. THEREFORE, AN ADDITIONAL \$900,000 WILL BE REQUIRED TO FINISH CONSTRUCTION, PURCHASE EQUIPMENT AND FURNISHING. WE WISH TO PLACE THIS REQUEST ON RECORD, MR. CHAIRMAN, IN THE FY 1985 BUDGET AUTHORIZATION.

WATER SUPPLY

AS WITH HEALTH FACILITIES, WE CONSIDER WATER PRODUCTION AND DISTRIBUTION TO BE OF THE SAME HIGH PRIORITY. MR. CHAIRMAN, IN ALL PREVIOUS TESTIMONIES BEFORE YOUR COMMITTEE, WE HAVE EMPHASIZED THE NEED FOR FUNDS TO IMPROVE OUR WATER SYSTEM. THIS YEAR IS NO EXCEPTION. THE PROPOSED PROJECTS ARE TO DESIGN AND CONSTRUCT THE IMPROVEMENTS NECESSARY TO PROVIDE CONTINUOUS WATER SERVICE TO THE MAJORITY OF THE POPULATION IN THE GROWTH CENTER OF SAIPAN AND POPULATION CENTER OF ROTA, AS WELL AS RURAL COMMUNITIES AND AGRICULTURAL LANDS. THE PROJECTS ARE EXPECTED TO IMPROVE WATER SUPPLY. RELIABILITY AND QUALITY TO ABOUT 11,000 RESIDENTS, 10,000 OF WHICH ARE ESTIMATED TO BE AT POVERTY LEVEL, LOW OR MODERATE INCOME INDIVIDUALS OR FAMILIES. A RELIABLE SOURCE OF POTABLE WATER WILL IMPROVE SANITARY CONDITIONS AND PROMOTE PUBLIC HEALTH. IN ADDITION, WATER WILL BE MADE

AVAILABLE TO A 300-UNIT FEDERALLY AND LOCALLY FINANCED HOUSING PROJECT ON SAIPAN AND 40 UNITS ON ROTA. THE ENTIRE POPULATION OF SAIPAN AND ROTA WILL BENEFIT FROM THE IMPROVED CLIMATE FOR ECONOMIC DEVELOPMENT. CURRENTLY, AN ESTIMATED \$60,000,000 IN PRIVATE SECTOR INVESTMENTS FOR BOTH ISLANDS ARE BEING DISCOURAGED BY INADEQUATE WATER SUPPLIES. THE PROJECT WILL CONSIST OF FOUR PHASES; THREE ON SAIPAN AND ONE ON ROTA.

PHASE I IS THE KAGMAN/AGAG WATER TRANSMISSION PIPELINE, BOOSTER PUMP STATION AND CONTROL BUILDING (\$1,106,000). THIS INVOLVES THE DESIGN AND CONSTRUCTION OF A WATER TRANSMISSION PIPELINE (APPROXIMATELY 11,900 LINEAR FEET) CONNECTING KAGMAN WELL FIELD TO AGAG RESERVOIR. THE PROJECT INVOLVES A BOOSTER PUMP STATION AND CONTROL BUILDING. THE COMPLETION OF THE KAGMAN-AGAG SYSTEM WILL ALLOW THE MIXING OF THE KAGMAN WELL FIELD WATER WITH OTHER WELL FIELDS HAVING HIGH CHLORIDE LEVELS, THUS LOWERING THE CHLORIDE CONTENT TO ACCEPTABLE STANDARDS. THE ESTIMATED PROJECT COST BREAKDOWN IS AS FOLLOWS:

	<u>AMOUNT</u>
ADMINISTRATIVE EXPENSES	\$ 3,600
ARCHITECTURAL & ENGINEERING FEES	101,029
PROJECT INSPECTION	25,959
CONSTRUCTION	860,118
LAND ACQUISITION	24,282
MISCELLANEOUS	5,000
CONTINGENCY (10% OF CONSTRUCTION)	<u>86,012</u>
TOTAL PROJECT COST	\$1,106,000

PHASE II IS THE KAGMAN/SAN VICENTE WATER TRANSMISSION PIPELINE AND 1,000,000 GALLON STORAGE TANK ON SAIPAN (\$1,510,000). THIS INVOLVES THE DESIGN AND CONSTRUCTION OF A WATER TRANSMISSION PIPELINE (APPROXIMATELY 17,470 LINEAR FEET) CONNECTION KAGMAN WELL FIELD TO SAN VICENTE RESERVOIR ON THE EASTERN SIDE OF THE ISLAND. THE PROJECT ALSO INCLUDES A PRESSURE BREAKING TANK AND A 1,000,000 GALLONS WATER STORAGE FACILITY. THE ADDITIONAL STORAGE FACILITIES WILL UPGRADE THE EXISTING, ALREADY

INADEQUATE, 500,000 GALLON TANK. AN ADDITIONAL PROBLEM IS THAT OF HIGH CHLORIDE CONCENTRATIONS IN THE WATER DUE TO SALT WATER INTRUSION INTO WELLS EXPLOITING BASAL AQUIFERS. AS A RESULT, CHLORIDE LEVELS OFTEN EXCEED THOSE PERMITTED BY U.S. PUBLIC HEALTH DRINKING WATER QUALITY STANDARDS. THE KAGMAN PENINSULA CONTAINS A HIGH-LEVEL AQUIFER, WITH CHARACTERISTICALLY LOW CHLORIDE LEVELS. THE COMPLETION OF THE KAGMAN/SAN VICENTE SYSTEM WOULD ALLOW KAGMAN'S WATER TO BE MIXED WITH WATER FROM OTHER SYSTEMS, THUS LOWERING THE CHLORIDE CONCENTRATIONS THROUGHOUT THE ENTIRE SYSTEM, WHICH WILL ENSURE THAT ALL OF SAIPAN'S WATER MEETS FEDERAL DRINKING WATER QUALITY STANDARDS. THE ESTIMATED PROJECT COST BREAKDOWN FOLLOWS:

	<u>AMOUNT</u>
ADMINISTRATIVE EXPENSES	\$ 3,600
ARCHITECTURAL & ENGINEERING FEES	133,423
PROJECT INSPECTION	35,677
CONSTRUCTION	1,202,591
LAND ACQUISITION	9,450
MISCELLANEOUS	5,000
CONTINGENCY (10% OF CONSTRUCTION)	<u>120,259</u>
TOTAL PROJECT COST	\$ 1,510,000

PHASE III IS THE CHALAN KANO/SUSUPE VILLAGE WATER SYSTEM IMPROVEMENTS ON SAIPAN (\$2,640,000). THIS INVOLVES THE DESIGN AND CONSTRUCTION OF THE IMPROVEMENTS NECESSARY TO PROVIDE CONTINUOUS WATER SERVICE TO THE CONSUMERS IN THE CHALAN KANO/SUSUPE VILLAGE WATER SYSTEM, WHICH SERVES THE OLDEST VILLAGE ON SAIPAN, LOCATED ON THE ISLAND'S SOUTHWESTERN COASTAL PLAIN. THE PROJECT WILL INVOLVE THE REPLACEMENT OF DETERIORATED GALVANIZED OR CAST-IRON TRANSMISSION LINES WITH PVC; THE UPGRADING OF SMALL DIAMETER PIPES; THE INSTALLATION OF LOOPING CONNECTIONS TO ENSURE GREATER WATER PRESSURE RELIABILITY; THE INSTALLATION OF FIRE HYDRANTS FOR FIRE PROTECTION; AND THE REPAIR OR REPLACEMENT OF APPROXIMATELY 1,200 DEFECTIVE SERVICE METERS. THE ENTIRE PROJECT IS PART OF A COMPREHENSIVE EFFORT TO IMPROVE WATER SUPPLY, QUALITY AND RELIABILITY TO THE ENTIRE POPULATION OF SAIPAN. THE PRESENT SYSTEM IS IN A STATE OF DETERIORATION SUCH THAT

ADEQUATE WATER PRESSURE CANNOT BE MAINTAINED ON A 24-HOUR BASIS. CHRONIC LOW PRESSURE NECESSITATES TURNING OFF WATER IN SOME AREAS TO SUPPLY OTHERS. DURING PERIODS OF LOW PRESSURE, BACTERIA-CONTAMINATED GROUNDWATER SEEPS INTO THE LEAKING PIPELINES, AND ENTERS THE DISTRIBUTION SYSTEM. SOMETIMES, EVEN OIL RESIDUE OR OIL BASED MATERIALS ENTERED THE WATER SYSTEM DURING PERIODS OF LOW PRESSURE. THE SERIOUSNESS OF THE SITUATION IS SUCH THAT THE GOVERNOR DECLARED A "STATE OF EMERGENCY" IN JANUARY 1982. THE 1983 PACIFIC BASIN DROUGHT COMPOUNDED THE ALREADY CRITICAL WATER PROBLEM ON SAIPAN. THE ESTIMATED CONSTRUCTION COST BREAKDOWN IS AS FOLLOWS:

	<u>AMOUNT</u>
ADMINISTRATIVE EXPENSES	\$ 3,600
ARCHITECTURAL & ENGINEERING FEES	227,118
PROJECT INSPECTION	63,785
CONSTRUCTION	2,127,724
MISCELLANEOUS	5,000
CONTINGENCY (10% OF CONSTRUCTION)	<u>212,773</u>
TOTAL PROJECT COST	\$ 2,640,000

PHASE IV - THIS IS THE ROTA WATER CAVE TO SONGSONG VILLAGE PIPELINE REPLACEMENT AND WATER CAVE TO SINAPALO (NEW HOMESTEAD) TRANSMISSION AND DISTRIBUTION PIPELINE SYSTEM (\$1,000,000). THIS PROJECT WILL REPLACE THE 45 YEAR OLD JAPANESE PIPELINE THAT CONVEYS WATER TO THE POPULATION CENTER OF SONGSONG VILLAGE. FUNDS WILL ALSO BE USED FOR DESIGN AND CONSTRUCTION OF A WATER TRANSMISSION AND DISTRIBUTION SYSTEM FOR THE NEW HOMESTEAD SUBDIVISION OF SINAPALO. ESTIMATED PROJECT COST BREAKDOWN IS AS FOLLOWS:

	<u>AMOUNT</u>
ADMINISTRATIVE EXPENSES	\$ 2,000
ARCHITECTURAL & ENGINEERING FEES	86,000
PROJECT INSPECTION	24,000
CONSTRUCTION	805,000
MISCELLANEOUS	2,000
CONTINGENCY (10% OF CONSTRUCTION)	<u>80,500</u>
TOTAL PROJECT COST	\$ 1,000,000

FUNDS NEEDED FOR ALL PROJECTS IS ESTIMATED TO BE \$6,256,000. LOCAL FUNDS WILL BE MADE AVAILABLE THROUGH LOCAL LEGISLATIVE APPROPRIATION.

WE ARE ALSO SEEKING ADDITIONAL APPROPRIATIONS FOR OTHER VITALLY NEEDED CIP PROJECTS. IN ORDER OF PRIORITY, THEY ARE: HARBOR, POWER, HIGHWAY, WASTEWATER, MEDICAL REFERRAL, AMERICAN MEMORIAL PARK, TTPI PROPERTIES, AND ARTS AND PERFORMANCE CENTER TO BE LOCATED WITHIN THE AMERICAN MEMORIAL PARK. COST ESTIMATES AND JUSTIFICATIONS OF THESE PROJECTS ARE INCLUDED AS ATTACHMENTS TO OUR STATEMENT.

THIRD COUNTRY ASSISTANCE

MR. CHAIRMAN, WE SEEK YOUR ASSISTANCE AND GUIDANCE IN DETERMINING WHETHER THE UNITED STATES GOVERNMENT POLICY ON THIRD COUNTRY ASSISTANCE TO MICRONESIA, IN GENERAL, APPLIES TO THE NORTHERN MARIANAS. WE FEEL THAT THE POLICY PROMULGATED ON MARCH 31, 1978 BY THE UNITED STATES DEPARTMENT OF STATE IS APPLICABLE TO THE NORTHERN MARIANAS BUT HAVE YET TO RECEIVE A CLEAR RESPONSE TO OUR QUERIES. POTENTIALLY, THE NORTHERN MARIANAS COULD RECEIVE GOODS AND MATERIALS FROM FRIENDLY THIRD COUNTRIES; ASSISTANCE THAT COULD IMPROVE OUR ECONOMY AND OUR UTILITIES AND INFRASTRUCTURE, AND AID US IN OUR PURSUIT OF ECONOMIC INDEPENDENCE, BUT WE HAVE ALWAYS BEEN DISCOURAGED AND HAVE BEEN INFORMED THAT, BECAUSE WE ARE A UNITED STATES COMMONWEALTH, WE ARE CONSIDERED A DEVELOPED COUNTRY AND, THEREFORE, CANNOT BE GRANTED AID UNLESS A FORMAL DECLARATION FROM THE UNITED STATES GOVERNMENT CONFIRMS THAT THE NORTHERN MARIANAS IS A DEVELOPING TERRITORY.

MR. CHAIRMAN, IN OUR ESTIMATION, THE UNITED STATES POLICY IS CLEAR ON THIS MATTER. WE ARE ASKING THE UNITED STATES GOVERNMENT, THROUGH THE DEPARTMENT OF STATE AND THE UNITED STATES EMBASSIES IN SEVERAL COUNTRIES, TO EFFECTIVELY INFORM FRIENDLY THIRD COUNTRIES THAT, ALTHOUGH THE NORTHERN MARIANAS IS A UNITED STATES TERRITORY, OR WILL SOON BE A UNITED STATES TERRITORY, THAT, FOR THE PURPOSES OF AID, IT IS THEREFORE A DEVELOPING COUNTRY AND THAT IT IS ELIGIBLE TO RECEIVE ECONOMIC AND OTHER ASSISTANCE AS OTHER INDEPENDENT COUNTRIES.

MR. CHAIRMAN, IF THE NORTHERN MARIANAS CAN QUALIFY FOR SUCH ASSISTANCE, AND WE SEE NO LEGITIMATE LEGAL REASON WHY IT CANNOT, WE WOULD NOT BE COMING TO THE UNITED STATES CONGRESS EVERY YEAR REQUESTING MILLIONS OF DOLLARS FOR UTILITIES, FOR PORTS AND OTHER CAPITAL IMPROVEMENT PROJECTS WHICH WE DESPERATELY NEED. IT WILL TAKE MANY YEARS OF FUNDING BEFORE WE CAN CONSIDER THE NORTHERN MARIANAS A DEVELOPED COUNTRY OR, FOR THAT MATTER, TO ACHIEVE A LEVEL OF LIVING STANDARD COMPARABLE TO THOSE IN THE UNITED STATES COMMUNITIES. WE WOULD VERY MUCH APPRECIATE YOUR ASSISTANCE IN ENCOURAGING THE DEPARTMENT OF STATE TO DESIGNATE THE NORTHERN MARIANAS AS A DEVELOPING COUNTRY, AND ESTABLISHING THAT IT IS ELIGIBLE TO RECEIVE THIRD COUNTRY ECONOMIC DEVELOPMENT ASSISTANCE. ANY ASSISTANCE YOU CAN AFFORD US IN IMPLEMENTING THIS POLICY WILL LEND GREATER CREDENCE TO OUR EFFORT OF ACHIEVING ECONOMIC SELF-SUFFICIENCY.

IT IS OUR VIEW ALSO, THAT HAVING RESOLVED THIS QUESTION IN OUR FAVOR, IT IS VERY PROBABLE THAT THE PROVISION OF UNITED STATES PUBLIC LAW 95-134 ON TITLE I WAR CLAIMS COMPENSATION COULD BE IMPLEMENTED. FOREIGN ECONOMIC ASSISTANCE FROM JAPAN OF GOODS AND MATERIALS, FOR EXAMPLE, COULD BE COUNTED AS AN EQUIVALENT SHARE OF THE GOVERNMENT OF JAPAN IN MEETING THE REQUIREMENT OF THE LAW OF 50% CONTRIBUTION. ONCE THIS CONTRIBUTION IS MADE BY JAPAN, THE REQUIREMENT OF PUBLIC LAW 95-134, THE FUNDING AMOUNT THAT THE UNITED STATES COMMITS ITSELF UNDER PUBLIC LAW COULD THEN BE APPROPRIATED. THE NORTHERN MARIANAS, I BELIEVE, IS ENTITLED TO ABOUT \$3 MILLION OF TOTAL UNADJUDICATED TITLE I CLAIMS.

TT SOCIAL SECURITY PRIOR SERVICE BENEFITS

WHEN THE TRUST TERRITORY SOCIAL SECURITY RETIREMENT FUND PROGRAM COMMENCED OPERATION IN 1968, ONE OF ITS CONSTITUENT PROGRAMS PROVIDED PRIOR SERVICE BENEFITS TO THE HUNDREDS OF MICRONESIANS WHO HAD WORKED FOR THE TT GOVERNMENT OR THE UNITED STATES NAVAL ADMINISTRATION FOR AT LEAST FIVE PRIOR YEARS. THIS WAS NOT ONLY IN RECOGNITION OF THEIR LOYAL SERVICE, BUT A RECOGNITION THAT THE LOW, PRE-1968 WAGES WHICH THEY RECEIVED WERE NOT SUFFICIENT FOR THEM ADEQUATELY TO PROVIDE FOR THEIR RETIREMENT YEARS IN A FULLY-MONETIZED ECONOMY CHARACTERIZED BY AN INCREASE IN IMPORTED GOODS,

MUCH HIGHER MINIMUM WAGES, AND RAMPANT INFLATION. IT IS COMMONLY THE CASE WHEN AN EMPLOYER ESTABLISHED A PENSION PLAN, THAT CREDIT IS GIVEN FOR SERVICE PRIOR TO THE EFFECTIVE DATE, AND THAT THE COST THEREOF IS PAID COMPLETELY BY THE EMPLOYER. THERE ARE MANY DIFFERENT WAYS IN WHICH THIS PRIOR SERVICE COST CAN BE FINANCED. ONE METHOD IS FOR THE IMMEDIATE LUMP-SUM PAYMENT OF AN AMOUNT WHICH, TOGETHER WITH INTEREST EARNINGS, WOULD MEET THE PRIOR SERVICE BENEFIT COST AS IT ARISES OVER THE YEARS. ANOTHER METHOD IS TO MEET THE RESULTING BENEFIT COSTS AS THEY ARISE (THE METHOD FOLLOWED TO DATE IN THE TRUST TERRITORY). YET ANOTHER METHOD IS TO MAKE EQUAL ANNUAL PAYMENTS FOR A FIXED NUMBER OF YEARS WHICH, TOGETHER WITH INTEREST EARNINGS, WOULD MEET BENEFIT AND ADMINISTRATIVE COSTS OVER THE YEARS AS THEY ARISE.

THE TOTAL FUTURE LIABILITY OF THE PRIOR SERVICE BENEFIT PROGRAM IS APPROXIMATELY \$25,000,000. ABOUT 42% OF THIS, OR SOME \$10,000,000, WILL ACCRUE TO NORTHERN MARIANA ISLANDS BENEFICIARIES. THE COMMONWEALTH CANNOT AFFORD TO TAKE ON THIS ADDITIONAL FISCAL BURDEN, NOR CAN THE OTHER NEW MICRONESIAN GOVERNMENTS. IT SIMPLY IS NOT OUR RESPONSIBILITY TO PAY THE RETIREMENT OF UNITED STATES NAVAL AND TT GOVERNMENT EMPLOYEES, NOR CAN WE AFFORD TO DO SO. ON THE OTHER HAND, IT WOULD BE IMMORAL AND UNETHICAL TO DENY THESE FAMILIES THE RETIREMENT INCOME THEY WERE LED TO EXPECT. ADDITIONALLY, IT IS OUR POSITION THAT THE FEDERAL GOVERNMENT HAS A LEGAL OBLIGATION TO FUND THESE BENEFITS, UNDER THE PROVISIONS OF SECTION 606(a) OF THE COVENANT. CONSEQUENTLY, WE RECOMMEND THE AUTHORIZATION OF A RELATIVELY SMALL, ONE-TIME APPROPRIATION (\$15,000,000) TO BRING THE ASSET VALUE OF BOTH THE MICRONESIAN AND NORTHERN MARIANA ISLANDS FUNDS TO A LEVEL THAT WILL PRODUCE SUFFICIENT REVENUES TO FUND ALL BENEFITS UNTIL THEY EXPIRE.

WAR CLAIMS

ANOTHER MATTER OF CONTINUING CONCERN TO OUR PEOPLE IS THE SETTLEMENT OF WORLD WAR II CLAIMS. THIS PROBLEM CONTINUES TO DRAG ON WITHOUT RESOLUTION. IT IS DEMORALIZING TO THOSE WHO HAVE WAITED PATIENTLY TO BE COMPENSATED FOR

THE SUFFERING AND DAMAGE THEY ENDURED DURING THE WAR, AND IT IS SHAMEFUL THAT JUST CLAIMS ARE BEING DENIED. SOME PEOPLE CAN NEVER BE COMPENSATED FOR THEY HAVE DIED DURING THIS INTERMINABLE PERIOD OF WAITING AND HOPING.

MELON FLY ERADICATION

"U.S.D.A. MELON FLY TASK FORCE REPORT OF MAY 1983." REPRESENTED BY ANIMAL & PLANT HEALTH INSPECTION SERVICE, PLANT PROTECTION & QUARANTINE AND AGRICULTURE RESEARCH SERVICE, THE TAKE FORCE VISITED THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS AND THE GOVERNMENT OF GUAM TO ASSESS THE MELON FLY INFESTATION. THE MELON FLY IS A MAJOR PEST OF AGRICULTURAL CROPS. AT THE CULMINATION OF THE TASK FORCE'S ASSESSMENT TRIP, THEY ESTIMATED THAT IT WILL COST \$300,000 FOR ROTA AND \$2,000,000 FOR GUAM TO CONDUCT A MELON FLY ERADICATION CAMPAIGN. WE WOULD LIKE TO REQUEST YOUR ASSISTANCE IN APPROPRIATING THE NECESSARY FUNDS TO THE U.S. DEPARTMENT OF AGRICULTURE TO CONDUCT THIS ERADICATION PROGRAM. WE UNDERSTAND THAT THE FUNDS IS NOT INCLUDED IN THE DEPARTMENT'S BUDGET SUBMISSION IN F.Y. 1985.

CONCLUSION

MR. CHAIRMAN AND MEMBERS OF THIS COMMITTEE, WE HAVE SUBMITTED TO YOU A LONG LIST OF ADDITIONAL FUNDING REQUESTS WHICH THE COMMONWEALTH OF THE NORTHERN MARIANAS CONSIDERS TO BE VITAL TO OUR SOCIAL AND ECONOMIC DEVELOPMENT. WE HAVE TRIED OUR BEST TO FIND LOCAL FUNDING THROUGH SUBSTANTIAL INCREASES IN UTILITY RATES AND COLLECTION OF NEW TAXES, BUT WE STILL HAVE A LONG WAY TO GO. WITHOUT PROPER INFRASTRUCTURE PROJECTS IN PLACE, WE WILL NEVER BE ABLE TO DEVELOP THE ECONOMIC RESOURCES NEEDED TO MEET OUR FINANCIAL RESPONSIBILITIES AS A SELF-GOVERNING COMMONWEALTH WITHIN THE AMERICAN COMMUNITY.

ASSESSMENT OF CURRENT AND PROSPECTIVE
ECONOMIC CONDITION IN THE
COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS
(SUBMITTED BY THE GOVERNMENT OF THE MARIANA ISLANDS)

The rate of economic activity in the CNMI has increased dramatically during the past six years, due to the growth of tourism, expanded Commonwealth Government and Federal program expenditures associated with the new political status. In 1975, the preliminary estimated Gross Islands Product (GIP) of the Northern Marianas was \$40.6 million (1975 dollars). The 1983 GIP was \$179.0 million dollars (1983 dollars). Adjusting the GIP to constant 1975 dollars indicates an increase from \$40.6 million to \$105.1 million dollars in GIP or a 159 percent growth the seven year period.

Wage and salary incomes are steadily increasing in the Commonwealth. In FY 1983 wage and salary earners in the CNMI reported a total of \$59.6 million in income to the Division of Revenue and Taxation. This represents an increase of 177 percent over the \$21.5 million reported in 1975. The number of persons reporting wage and salary income has increased from 6,158 in 1975 to 8,859 in 1982 an increase of nearly 44 percent. The average annual earnings for 1983 were \$6,728, while per capita income was \$3,222 and the average family income was \$16,108.

The visitor industry represents the Commonwealth's leading economic activity and revenue generation and is the most promising sector for further development, expansion, and revenue source. The total visitors to CNMI numbered about 124,024 in 1983 representing an increase of 143 percent over the 51,0 visitors in 1976. Hotel capacity in CNMI is now 787 rooms. Hotel capacity must be increased to 1,000 rooms to permit continued growth in this sector.

Given the resident population of 19,598 persons, the Commonwealth's total FY 1983 import bill amounted to nearly \$3,327 per capita. Even allowing for visitors, the value of FY 1983 imports into the CNMI still exceeded \$3,149 per capita. Not only the relatively high overall level of imports, but also the variety and concentrations of items that are imported - food stuff, consumer durables, etc. - indicate the importance of imported goods in the consumption patterns of CNMI residents. Moreover, as personal incomes continues to increase in the CNMI, the level of imports, absolutely and per capita, is likely to grow even higher. Under these circumstances, it would be unrealistic to achieve a goal of "self-sufficiency" for the CNMI within the 7-year growth period specified in the Covenant.

Thus, the standard of living that the Commonwealth has established, and the accelerated economic development their citizens desire, will continue to demand a high and rising level of imports.

Despite the Commonwealth dependence on federal funds, direct and indirect, the Commonwealth has considerable latitude for independent fiscal decisions on both taxing and spending. As incomes in the Commonwealth increase, its residents will be prepared to increase their contributions to the support of their government.

Commonwealth of the Northern Mariana Islands
Projection of Internal Resources
Fiscal Year 1985

FY 1983 was the first full year that measures the potential of Public Law 3-11. Public Law 3-11 is the impetus forming the base for all local

resources in the Commonwealth of the Northern Mariana Islands (CNMI). About 67% of the estimated revenues is generated under P.L. 3-11, and about 33% is considered other resources. The projected resources for FY 1985 is \$21,741,200. The projections are predicated on the actual collection for FY 1983. The increase of revenues/ resources is projected at nominal variation from 5% to 10% increment from the actual collection in FY 1983, and inversely in the case of decrease, with an exception of 15% and 25% increase in various items within certain category. It is apparent on the following scenario that the emphasis is on FY 1985 projection.

The projection for FY 1985 shows a decrease of about \$1,411.3 over the projected resources for FY 1984. The basis for FY 1985 is more realistic. However, the current collection would determine the validity of all projections. The adjustment will be in order when necessary.

A. Income Taxes

Chapters II and III of Public Law 3-11 are still in effect. U.S. Congress has deferred the applicability of Section 601(a) of the Covenant until January 1, 1985. Therefore, the IRC is not being enforced as the Commonwealth's local territory income tax on income earned within the Northern Marianas. With the support of the Department of Interior and U.S. Treasury, we are seeking an amendment to the Covenant that will give us the authority to establish a system of local income taxation that recognizes the uniqueness of the Commonwealth, produce greater revenues and will promote rather than impede our economic development. We have projected \$8,837,100 for FY 1985.

B. Excise Taxes

These taxes constitute the second largest resources provided under P.L. 3-11, by-and-large the third largest overall. Chapter II of P.L. 3-11 outlined the imported goods subject to excise tax along with the rates for each line item. Cigarettes, beverages, food products, construction materials, and all others as a line item attribute sizeably to this category. But this is the category that is steady in growth. The hospital is a major project, its imports is taken into consideration. Fiscal Year 1985 is estimated to generate \$3,600,200.

C. Liquid Fuel Taxes

Taxes imposed upon gasoline, diesel and other liquid fuel made up this category. The presumption underlying the increase is the continued growth of vehicles importation which consume these types of fuel. It is estimated that \$542,000 of liquid fuel tax will be generated for FY 1985.

D. Container Taxes

This is a tax imposed on beverage containers upon importation. It is the last of the series of excise taxes. Because it is expected that imports of beverages will increase, as reflected under the general excise taxes, naturally there should be a corresponding, proportionate increase in the beverage container excise tax. A figure of \$434,000 is projected for this category. There is no change in the sharing of this revenues between the CNMI Government and the Marianas Visitors Bureau.

E. Other Taxes

The Marianas Visitor's Bureau's records has been reflecting an increase in tourism from international markets which attributes to the increase on hotel occupancy tax. The tourist and the local market for bars and night clubs are estimated to provide the revenues under this category in the amount of about \$444,800.

F. Business License Fees

A major change under this category is expected to take place upon enactment of the Banking Act of 1983. The business license fee for banking institutions has increased significantly. The projection herein has taken that into consideration. The CNMI is expected to accrue about \$135,400 in business license fees for FY 1985.

G. Vehicle Registration Fees

While the imports of motor vehicles and non-motorize transportation continue year after year, it is estimated that \$202,000 will be available under this category for FY 1985.

H. Operator License Fees

This category ties in together with the excise tax on imported vehicles which will eventually be registered. The volume of licensees will pay an approximate amount of \$44,000 for FY 1985.

I. Admiralty and Maritime Fees

Experience dictates that this category has been an insignificant resource. It is at least expected that the existing vessels reregister in FY 1985, which will provide about \$300 of fees.

J. Weapons Fees

This category falls in the same unproductive resources with the admiralty and maritime fees. The increase over the basis is made under the expectation that an in-house target range will be in operation. As a result of this expectation \$700 is expected to be generated.

K. Amusement Machines

On August 29, 1983, Public Law 3-70 prohibited the licensing for operation of slot machines in the CNMI. As a consequence, the CNMI lost potential revenues for license fees of about \$200,000 per annum. Except for the poker machines which made up most of this category, the other amusement machines have reached the maturity stage and are on the verge of "downstream", similarly true with its counter-part "home computers" - Atari, Intelelevision, etc. If the poker machines would steadfast on its market, the CNMI can generate about \$278,900 under this source.

L. Senatorial District Taxes

These taxes are the sole survivors of the repealer provisions of P.L. 3-11, which incorporates all revenues and taxes. The activities under this category are rather nominal too. \$1,100 for FY 1985 is on the brim for optimism.

M. Corporation Fees

It seems too hopeful to project \$21,400 under this category; but we have strong convictions that the CNMI is still developing economically, if not "booming" per se.

N. Other Internal Resources

This category consolidates an array of resources from contractual obligations, investments, punitive fines for wrong-doing, to an arrangement of franchise privileges. The combination of all these resources is expected to generate \$1,463,600.

O. Indirect Cost Reimbursement

In retrospect, the trend of the actual reimbursement from FY 1981 to FY 1983 has shown a progressive increase over these years.

	<u>FY 81</u>	<u>FY 82</u>	<u>FY 83</u>	<u>Est'd FY 85</u>
Collection	\$333,700	\$372,800	\$433,895	\$500,000
Percent Increase		12%	13%	15%

Fiscal Year 1985 is projected to increase over FY 1983's increase by a margin of 15%.

P. Operational Reimbursement

This, too, has demonstrated a significant growth from FY 1980 to FY 1983. The focal revenue center under this category is the sales of water and power, about 77%. It should be noted that the Trust Territory Government is expected to close its business in the CNMI in 12 to 16 months after October 1983. The hospital and dental services rank second which is about 6%. It is estimated that for FY 1983 to FY 1985 it will level-off at a range of \$5,000,000. The \$6,500,000 envisioned by CNMI Legislature for this category for FY 1984 is excessive. Fiscal Year 1985 is expected to generate \$5,235,700 .

STATEMENT OF BENJAMIN T. MANGLONA

I AM BENJAMIN T. MANGLONA, VICE PRESIDENT AND CHAIRMAN OF THE FISCAL AFFAIRS COMMITTEE OF THE SENATE OF THE FOURTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE. I AM INDEED PRIVILEGED AND HAPPY TO BE ABLE TO APPEAR BEFORE YOUR DISTINGUISHED COMMITTEE TODAY TO OFFER TESTIMONY ON BEHALF OF THE FISCAL YEAR 1985 BUDGET REQUESTS OF THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS. HERE, I WOULD LIKE TO EXPRESS GREETINGS AND A CHEERFUL HABA ADAI FROM THE PEOPLE OF THE NORTHERN MARIANAS. AS YOU MAY KNOW, THIS CHAMORRO EXPRESSION HABA ADAI MEANS A PLEASANT HELLO AS USED AMONG FRIENDS.

THE PEOPLE AND THE GOVERNMENT OF THE NORTHERN MARIANA ISLANDS ARE DEEPLY THANKFUL TO THE UNITED STATES GOVERNMENT AND YOUR COMMITTEE IN PARTICULAR FOR YOUR CONTINUING GOOD WILL, SUPPORT, AND HELP OVER THE YEARS IN HELPING US ACHIEVE OUR PRESENT LEVEL OF SELF-GOVERNMENT AND WELL-BEING.

YOUR FAVORABLE ATTENTION TO SOME OF OUR PARTICULAR FINANCIAL NEEDS BY PROVIDING FUNDS FOR A NEW POWER PLANT AND HEALTH FACILITIES, AMONG OTHER THINGS, HAS MEANT A LOT TO THE PEOPLE OF THE NORTHERN MARIANAS AND OUR ECONOMIC AND SOCIAL PROGRESS.

YOU, MR. CHAIRMAN, AND YOUR DISTINGUISHED COMMITTEE AND THE UNITED STATES GOVERNMENT HAVE COLLECTIVELY BEEN VERY HELPFUL AND UNDERSTANDING IN TERMS OF OUR NEEDS FROM YEAR TO YEAR, AND TREMENDOUS PROGRESS HAS BEEN MADE SINCE THE INCEPTION OF OUR COMMONWEALTH GOVERNMENT IN 1978. NEVERTHELESS, MUCH STILL REMAINS TO BE DONE IN ORDER TO MEET BASIC INFRASTRUCTURE NEEDS AND PROVIDE FOR CONTINUED ECONOMIC DEVELOPMENT, HEALTH, AND SOCIAL WELFARE IN THE NORTHERN MARIANAS.

FOR US, IN THE COMMONWEALTH, FISCAL YEAR 1985 IS A WATERSHED YEAR. IT REPRESENTS THE FINAL YEAR OF THE INITIAL SEVEN YEAR PERIOD OF MULTI-YEAR FINANCIAL ASSISTANCE GUARANTEED BY SECTIONS 701, 702, and 704 OF THE COVENANT TO ESTABLISH A COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IN POLITICAL UNION WITH THE UNITED STATES OF AMERICA.

FOR THIS REASON, MY TESTIMONY HERE TODAY WILL BE SOMEWHAT BROADER THAN OUR TRADITIONAL EMPHASIS ON THE VARIOUS PROJECTS FOR WHICH WE SEEK FUNDING. WHILE WE RECOGNIZE THAT THE PRIMARY EMPHASIS OF THIS COMMITTEE IS ON BUDGETARY DETAIL, WE NOTE THAT OUR FUNDING REQUESTS ARE INEVITABLY LINKED TO OTHER ASPECTS OF THE FEDERAL-COMMONWEALTH RELATIONSHIP BY VARIOUS PARTIES, INCLUDING MEMBERS OF CONGRESS. CONSEQUENTLY, WE FEEL IT IS APPROPRIATE TO PUT OUR FUNDING REQUESTS IN THE CONTEXT OF

ACCOMPLISHMENTS TO DATE, THE OVERALL STATUS OF THE COMMONWEALTH TODAY, AND THE FUTURE OF THE COMMONWEALTH.

THE GOVERNOR'S TESTIMONY HAS VERY ABLY OUTLINED THOSE PRIMARY NEEDS THAT ARE PRESENTLY BEYOND THE CAPABILITY OF THE CNMI GOVERNMENT TO FUND WITH OUR EXTREMELY LIMITED LOCAL RESOURCES, IN A FEW MINUTES, I WOULD LIKE TO ADD A FEW COMMENTS ON THESE NEEDS, WHICH OUT OF THE HOST OF DESERVING, AND IN SOME INSTANCES, CRITICALLY NEEDED, PROJECTS TO BENEFIT THE PEOPLE OF THE NORTHERN MARIANAS, HAVE BEEN PRESENTED TO YOUR DISTINGUISHED COMMITTEE FOR YOUR CAREFUL DELIBERATION AND ASSESSMENT. FIRST, HOWEVER, WE WOULD LIKE TO TOUCH UPON THE RESULTS ACHIEVED IN THE COMMONWEALTH THROUGH THE PAST SIX YEARS OF PARTNERSHIP WITH THE UNITED STATES, AS EMBODIED IN THE COVENANT, AND POINT THE DIRECTION TOWARD CONTINUED PROGRESS AND HARMONY.

COMMONWEALTH: SIX YEARS OF SUCCESS

WE ARE PLEASED TO BE ABLE TO REPORT THAT, WHILE THE RELATIONSHIP HAS NOT BEEN WITHOUT PROBLEMS, THE TERMS AND STRATEGY AGREED UPON BY THE NORTHERN MARIANAS AND THE UNITED STATES HAS WORKED ADMIRABLY TO OUR MUTUAL BENEFIT. IT IS, IN FACT, AN AMERICAN POLICY SUCCESS.

IN REAL 1975 DOLLARS, OUR GROSS ECONOMIC PRODUCT HAS GROWN 159 PER CENT OVER THE PAST SEVEN YEARS, REPRESENTING AN ANNUAL ECONOMIC GROWTH RATE OF ROUGHLY 15 PER CENT, AT THE SAME TIME AS THE MULTI-YEAR FINANCIAL ASSISTANCE FROM THE UNITED STATES GOVERNMENT HAS REMAINED CONSTANT, IN REAL TERMS.

LOCALLY GENERATED REVENUES HAVE JUMPED FROM A MERE \$9.7 MILLION IN FY 1980 TO AN ESTIMATED \$22 MILLION IN FY 1985, AN AVERAGE ANNUAL INCREASE OF 18 PER CENT. IN FY 1985, LOCALLY GENERATED REVENUES WILL EXCEED COVENANT-BASED FUNDING FOR GOVERNMENT OPERATIONS BY 28.3 PER CENT.

WE BELIEVE THIS PROGRESS IS A DIRECT RESULT OF THE CONSTANT, GUARANTEED FINANCIAL ASSISTANCE AND THE LEGAL-POLITICAL FRAMEWORK ESTABLISHED BY THE COVENANT, PERIODIC U.S. SUPPORT FOR MAJOR INFRASTRUCTURE EFFORTS, AND THE APPLICATION OF LOCALLY DESIGNED TAX LAWS, COUPLED WITH THE EFFORTS OF OUR OWN GOVERNMENT OVER THE YEARS.

COMMONWEALTH: FROM PRESENT TO FUTURE

WE FIRMLY BELIEVE THE GUIDING PRINCIPLE FOR FEDERAL POLICY TOWARD THE COMMONWEALTH SHOULD BE THE PROMOTION OF PRIVATE SECTOR DEVELOPMENT AND SELF-IMPROVEMENT. AS INDICATED, WE BELIEVE WE HAVE MADE ENORMOUS PROGRESS DURING THE PAST SIX YEARS OF SELF-GOVERNMENT. HOWEVER, FURTHER TECHNICAL ASSISTANCE AND ADDITIONAL FINANCIAL ASSISTANCE, PARTICULARLY FOR INFRASTRUCTURE DEVELOPMENT, WILL BE NECESSARY IF WE ARE TO COMPLETE THE TASK WE HAVE BEGUN.

WE BELIEVE A SELF-SUFFICIENT, SELF-SUSTAINING COMMONWEALTH IS OUR MUTUAL GOAL. OUR COMMITMENT TO IMPROVED EFFICIENCY AND EFFECTIVENESS REMAINS FIRM, DESPITE POLITICAL PRESSURES FOR THE GOVERNMENT TO FILL THE GAP IN EMPLOYMENT, SERVICES, AND BENEFITS CREATED BY AN INADEQUATE ECONOMIC, COMMERCIAL, AND PRODUCTIVE BASE. IT IS FOR THIS REASON THAT WE ARE EMPHASIZING PRIVATE SECTOR DEVELOPMENT AND INVESTMENT IN INFRASTRUCTURE RATHER THAN INCREASED FEDERAL LARGESS AND WELFARE PROGRAMS.

ONE SPECIFIC STEP TOWARD PRIVATE SECTOR DEVELOPMENT WOULD BE THE OPENING OF A U.S. SMALL BUSINESS ADMINISTRATION OFFICE IN THE NORTHERN MARIANAS; ANOTHER WOULD BE THE EXPANSION OF HOUSING AND HOME OWNERSHIP LOAN PROGRAMS. WE RECOMMEND BOTH OF THESE STRONGLY.

WE BELIEVE THAT IT IS NOW TIME TO ACTIVATE THE FORMAL PROCESS OF GOVERNMENT-TO-GOVERNMENT CONSULTATIONS SANCTIONED BY SECTION 902 OF THE

COVENANT. CRITICAL MATTERS OF MULTI-YEAR FINANCIAL ASSISTANCE, ECONOMIC DEVELOPMENT, LEGAL ISSUES, FEDERAL-COMMONWEALTH RELATIONS, INFRASTRUCTURE BASE, PLANNING, INSTITUTIONAL/ORGANIZATIONAL/BUREAUCRATIC FRAMEWORK, AND OTHERS NEED TO BE ADDRESSED. IN ADDITION TO GUARANTEED FINANCIAL ASSISTANCE, ONE SPECIFIC EXAMPLE OF AN IMPORTANT AREA FOR DISCUSSION IS THE QUESTION OF FISHERIES AND LAW OF THE SEA, INCLUDING THE FISHERIES CONSERVATION MANAGEMENT ACT AND THE MAGNUSON ACT.

A PRIMARY GOAL OF THESE CONSULTATIONS SHOULD BE TO LOOK FIVE AND TEN YEARS INTO THE COMMONWEALTH'S FUTURE AND ATTEMPT TO CHART A COURSE THAT WILL LEAD TO OUR EVENTUAL SELF-SUFFICIENCY. TO PROVIDE A SOUND FOUNDATION FOR THIS PROCESS, DETAILED RESEARCH AND ANALYSIS SHOULD BE DONE AND PLANNING OPTIONS PREPARED. WE ARE HOPEFUL THE U.S. GOVERNMENT WILL PROVIDE TECHNICAL ASSISTANCE FOR THIS PURPOSE. THE COMMONWEALTH SENATE IS PRESENTLY CONSIDERING A BILL TO ESTABLISH A COMMISSION TO STUDY MATTERS SUCH AS THESE. IF ENACTED INTO LAW, THAT COMMISSION MAY BE THE APPROPRIATE FRAMEWORK TO GUIDE THE PROFESSIONAL STUDIES.

EVEN AFTER SIX YEARS AS A COMMONWEALTH IN POLITICAL UNION WITH THE UNITED STATES OF AMERICA, WE STILL FACE THE CHRONIC PROBLEM OF LACK OF KNOWLEDGE OR UNDERSTANDING WITHIN THE FEDERAL BUREAUCRACY OF THE UNIQUE STATUS WE ENJOY. THIS RESULTS IN FRUSTRATION, INCREASED COSTS, AND IMPEDIMENTS TO THE GROWTH AND DEVELOPMENT THE COVENANT WAS MEANT TO PROMOTE. TO COUNTERACT THIS, WE WOULD SUGGEST THAT NEW EFFORTS BE UNDERTAKEN, PERHAPS EVEN A FORMAL MECHANISM BE ESTABLISHED, TO EDUCATE THE BUREAUCRATIC APPARATUS AS TO THE STATUS OF THE COMMONWEALTH.

SIMILARLY, WE ADVOCATE CLOSE, GENUINE CONSULTATION BETWEEN THE FEDERAL GOVERNMENT AND THE COMMONWEALTH AND INVOLVEMENT OF COMMONWEALTH OFFICIALS IN THE POLICY-MAKING PROCESS. TOO OFTEN, FEDERAL POLICIES AND REGULATIONS ARE DEVELOPED AND ACTIONS ARE TAKEN WITHOUT REGARD FOR THEIR

DIRECT OR INDIRECT IMPACT ON THE COMMONWEALTH OR THEIR RELEVANCE TO SOCIAL, ECONOMIC, AND GOVERNMENTAL CONDITIONS HERE.

COMMONWEALTH HEALTH CENTER

RECOGNIZING THE PATHETIC CONDITION OF OUR CURRENT HOSPITAL AND THE NEED TO BRING HEALTH CARE IN THE COMMONWEALTH UP TO THE U.S. MINIMUM STANDARDS, CONGRESS AUTHORIZED A NEW COMMONWEALTH HEALTH CENTER IN PUBLIC LAW 98-205. \$20 MILLION HAS BEEN APPROPRIATED TO DATE FOR THIS PURPOSE; HOWEVER, AN ADDITIONAL \$10 MILLION WILL BE REQUIRED TO COMPLETE CONSTRUCTION, EQUIP, AND OPEN THIS URGENTLY NEEDED FACILITY.

IT IS CRITICALLY IMPORTANT THAT THIS FUNDING BE PROVIDED IN FY 1985 TO AVOID FURTHER COST ESCALATION AND CONTINUED INADEQUATE MEDICAL CARE FOR THE PEOPLE OF THE COMMONWEALTH. SOME HEALTH EXPERTS ACTUALLY BELIEVE THE PRESENT HOSPITAL IS A HEALTH HAZARD ENDANGERING PATIENTS DUE TO ITS OPEN CORRIDORS AND DILAPIDATED CONDITION.

IT IS ALSO CRITICAL TO PROVIDE THIS FUNDING IN FY 85 BECAUSE IMPORTANT MEDICAL EQUIPMENT MUST BE ORDERED NOW TO BE ON-LINE WHEN THE FACILITY OPENS IN SEPTEMBER OF 1985. EQUIPMENT SUCH AS THIS MUST BE SPECIAL-ORDERED SIX TO NINE MONTHS IN ADVANCE, AND INSTALLED THREE MONTHS PRIOR TO USE. A DELAY IN FUNDING FOR THE HOSPITAL EQUIPMENT APPROPRIATION UNTIL THE NEXT BUDGET WILL MEAN THE HOSPITAL WILL STAND VACANT AND UNUSABLE A YEAR. FURTHER THE INFLATION IMPACT ON DELAYED PURCHASE OF THIS SORT OF EQUIPMENT WILL GENERATE A SUBSTANTIAL COST OVERRUN.

WE RECOGNIZE THAT OPERATING COSTS WILL BE HIGHER WITH THIS NEW, EXPANDED, MODERN FACILITY. HOWEVER, WE ANTICIPATE THAT THESE INCREASED COSTS WILL BE AT LEAST PARTLY OFFSET BY REDUCED OFF-ISLAND MEDICAL REFERRAL COSTS. IT HAS FREQUENTLY BEEN NECESSARY FOR US TO ASK THE U.S.

CONGRESS FOR A SUPPLEMENTAL APPROPRIATION EACH YEAR TO HELP US DEAL WITH THE HIGH COST OF MEDICAL REFERRAL. ADDITIONALLY, WE WILL BE LOOKING TO THE FEDERAL GOVERNMENT FOR TECHNICAL ASSISTANCE IN IMPROVED HOSPITAL ADMINISTRATION AND THE DEVELOPMENT AND IMPLEMENTATION OF NEW HEALTH CARE PROGRAMS, INCLUDING HEALTH PLANS AND COMMUNITY-BASED FUNDING.

NEW HEALTH CARE FACILITIES ON THE ISLANDS OF TINIAN AND ROTA HAVE BEEN MADE POSSIBLE BY A \$1.4 MILLION HILL-BURTON GRANT, AND CONSTRUCTION IS CURRENTLY UNDERWAY. HOWEVER, IT APPEARS THAT ADDITIONAL FUNDS FOR EACH FACILITY WILL BE NECESSARY IN ORDER TO GET THESE TWO CENTERS FULLY EQUIPPED AND READY FOR OPERATION, AND WE ARE REQUESTING AN APPROPRIATION OF \$900,000 FOR THIS PURPOSE.

ADDITIONALLY, THE HILL-BURTON GRANTS CONTAIN RESTRICTIONS PREVENTING THEIR USE ON INPATIENT FACILITIES. NOTWITHSTANDING THIS, WE NEED SOME CAPABILITY ON BOTH ROTA AND TINIAN, BECAUSE OF THEIR RELATIVE ISOLATION FROM SAIPAN, TO MAINTAIN A LIMITED NUMBER OF HOLDING BEDS FOR OVERNIGHT OBSERVATIONS OR FOR PATIENTS WHO ONLY NEED A COUPLE OF DAYS OF CONVALESCENCE. SENDING ALL PATIENTS TO SAIPAN FOR FULL ADMISSION IS UNNECESSARILY COSTLY AND UNDESIRABLY REMOVES THE PATIENT FROM THE SUPPORT OF HOME AND FAMILY. WITHOUT DEVIATING FROM THE LEGAL REQUIREMENTS OF THE HILL-BURTON GRANTS, WE NEVERTHELESS NEED TO BUILD SOME KIND OF EXTENSION TO THESE FACILITIES AND PROVIDE LIMITED HOLDING BED CAPABILITIES.

IN CONSIDERING THE FINAL \$10 MILLION FOR THE COMMONWEALTH HEALTH CENTER, WE HOPE CONGRESS WILL INCLUDE A PROVISION PERMITTING USE OF ANY BALANCE REMAINING UPON COMPLETION OF THE PROJECT TO BE USED TO FULLY COMPLETE, EQUIP, AND EXTEND THE TINIAN AND ROTA HEALTH CARE FACILITIES. WE ARE HOPEFUL THAT THE COMPETITIVE BIDDING PROCESS AND SOUND PROCUREMENT WILL PERMIT US TO COMPLETE THE COMMONWEALTH HEALTH CENTER FOR SOMETHING UNDER \$30 MILLION, AND THIS WOULD GIVE US FLEXIBILITY TO MEET HEALTH CARE NEEDS ON THE SMALLER ISLANDS.

IT HAS OFTEN BEEN OBSERVED THAT A PEOPLE CANNOT MAKE REAL SOCIAL AND ECONOMIC PROGRESS WITHOUT FIRST ATTAINING A FOUNDATION OF SOUND HEALTH, AND WE ARE DEEPLY GRATEFUL TO THE UNITED STATES GOVERNMENT FOR ALL THE ASSISTANCE THAT HAS BEEN PROVIDED TO HELP IMPROVE HEALTH CARE IN OUR ISLANDS.

INFRASTRUCTURE DEVELOPMENT

TWENTY-EIGHT POINT SIX PERCENT (28.6%) OF THE ANNUAL FINANCIAL ASSISTANCE GUARANTEED BY THE COVENANT IS EARMARKED FOR CAPITAL IMPROVEMENT PROJECTS, AND THIS HAS ENABLED US TO, AMONG OTHER THINGS, CONSTRUCT SEVERAL PERMANENT SCHOOL BUILDINGS TO RELIEVE OVERCROWDING IN OUR SCHOOLS, MAKE A START IN DEALING WITH THE VERY SERIOUS DEFICIENCIES IN OUR WATER SYSTEM, IMPROVE ELECTRIC POWER GENERATION, RENOVATE AND IMPROVE PUBLIC FACILITIES, AND PROCURE NEEDED HEAVY EQUIPMENT AND MACHINERY FOR THE PUBLIC WORKS AND NATURAL RESOURCES DEPARTMENTS.

THE COVENANT ALSO SPECIFIES THAT 12.5 PERCENT OF THE TOTAL CIP FUNDING SHALL BE RESERVED FOR PROJECTS ON EACH OF THE ISLANDS OF ROTA AND TINIAN. THIS HAS MEANT VERY REAL PROGRESS IN ESTABLISHING INFRASTRUCTURE ON THESE LARGELY UNDEVELOPED ISLANDS.

NEVERTHELESS, THE COMMONWEALTH HAS MAJOR UNMET INFRASTRUCTURE NEEDS THAT ARE ACTING AS A HUGE STUMBLING BLOCK TO ECONOMIC DEVELOPMENT. CHIEF AMONG THESE ARE THE DEPLORABLE CONDITION OF OUR PUBLIC WATER SYSTEM, ROADS, AND HARBORS. A CRITICAL NEED FOR ROUGHLY \$60 MILLION NOW EXISTS, SO THAT THE MOST URGENT INFRASTRUCTURE PROJECTS CAN BE UNDERTAKEN. ADDITIONALLY, LONG-TERM INFRASTRUCTURE DEVELOPMENT IS ONE OF THE SUBJECTS THAT SHOULD BE ADDRESSED IN THE GOVERNMENT TO GOVERNMENT CONSULTATIONS DISCUSSED EARLIER.

THE COST MAY SEEM HIGH AT FIRST GLANCE, BUT WE WOULD STRESS THAT THIS IS ACTUALLY AN INVESTMENT, NOT AN EXPENSE. WITH THE INFRASTRUCTURE IN PLACE, ECONOMIC ACTIVITY WILL BE INCREASED, BUSINESSES WILL BE ATTRACTED TO THE COMMONWEALTH, EXISTING BUSINESSES WILL EXPAND, JOBS WILL BE CREATED, WELFARE AND FOOD STAMP COSTS WILL DECLINE, TAX REVENUES WILL INCREASE, EXORBITANT MAINTENANCE COSTS ON EXHAUSTED FACILITIES WILL BE REDUCED AND SO ON. IN SHORT, THE FEDERAL GOVERNMENT WILL EVENTUALLY SAVE MANY MILLIONS OF DOLLARS IN REDUCED LONG-TERM SUBSIDIES.

OUR PRIMARY INDUSTRY, TOURISM, NOW CONTRIBUTES OVER HALF OF OUR GROSS ECONOMIC PRODUCT, YET THIS INDUSTRY DEMANDS A SOUND INFRASTRUCTURE BASE, PARTICULARLY IN THE AREAS OF WATER, SEWER, POWER, ROADS AND PUBLIC FACILITIES. CONTINUED ECONOMIC GROWTH IN THE COMMONWEALTH, THEREFORE, DEPENDS HEAVILY UPON INVESTMENT IN INFRASTRUCTURE.

ALSO, WE CAUTION AGAINST DELAY OF THE COMMONWEALTH'S INFRASTRUCTURE NEEDS, AS THIS WILL ONLY INCREASE THE LONG-TERM COSTS TO THE U.S. GOVERNMENT, PERPETUATE DEPENDENCE ON WASHINGTON AND WORK A HARDSHIP ON THE PEOPLE OF THE MARIANAS.

IT IS DIFFICULT TO OVERSTATE THE IMPORTANCE OF COMPLETING INFRASTRUCTURE PROJECTS IN AN ORGANIZED AND COORDINATED FASHION, SO AS TO MINIMIZE COST AND DISRUPTION. A GOOD EXAMPLE OF THE IMPACT OF FAILURE TO HEED THIS AXIOM OF GOOD PLANNING IS THE OBVIOUS ADVERSE EFFECT OF BUILDING A ROAD AND THEN TEARING IT UP TO PUT IN SEWER OR WATER LINES.

IT IS EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE, TO ATTRACT CAPITAL AND STIMULATE LOCAL BUSINESS WITHOUT AN ADEQUATE INFRASTRUCTURE BASE. AT THE PRESENT RATE OF CAPITAL AND INFRASTRUCTURE FUNDING, IT WILL TAKE 35 TO 50 YEARS BEFORE THE COMMONWEALTH HAS ADEQUATE INFRASTRUCTURE IN PLACE. BUT THE COMMONWEALTH NEEDS ECONOMIC GROWTH TODAY, NOT TWO GENERATIONS HENCE. IT SEEMS TO MAKE FAR BETTER SENSE TO MAKE A MAJOR EFFORT NOW TO CONSTRUCT

THE FOUNDATION FOR GROWTH, THAN TO DRAG IT ON INDEFINITELY, PIECEMEAL, AT FAR GREATER COST OVER THE LONG HAUL.

WATER SYSTEM

OUR PUBLIC WATER SYSTEM IS SO DETERIORATED THAT, AT TIMES, IT REPRESENTS A HAZARD TO THE HEALTH OF OUR PEOPLE. THE ANCIENT PIPES ARE BADLY RUSTED AND LEAK PROFUSELY. IT HAS BEEN CALCULATED THAT BARELY TWO OUT OF EVERY FIVE GALLONS PUMPED EVER REACH A CONSUMER. THE SITUATION DETERIORATED TO SUCH AN EXTENT THAT IT WAS NECESSARY, IN JANUARY 1982, TO DECLARE A STATE OF EMERGENCY, SO THAT ALL POSSIBLE LOCAL RESOURCES COULD BE MARSHALLED TO DEAL WITH THE SITUATION.

IN SPIITE OF ADDING NEW WELLS, USING LIMITED LOCAL CAPITAL IMPROVEMENT FUNDS, IT HAS NOT BEEN POSSIBLE TO KEEP UP WITH THE LEAKAGE AND INCREASED DEMAND. INDEED, THE HIGHER PRESSURE AVAILABLE FROM THE NEW WELLS MAY EVEN EXACERBATE THE PROBLEM, BY CONTRIBUTING TO A HIGHER LEAKAGE RATE AND ENLARGING THE MILLIONS OF PIN-HOLE SIZED LEAKS IN THE PIPES. FOR YEARS, THE CITIZENS OF THE COMMONWEALTH HAVE ENDURED WATER RATIONING, ACHIEVED BY PERIODICALLY SHUTTING OFF THE WATER AT THE SOURCE. UNFORTUNATELY, THIS CONTRIBUTES TO FURTHER CORROSION OF THE PIPES, AS ONLY RESIDUAL WATER REMAINS IN THEM, AND ALLOWS CONTAMINATION FROM FECAL COLIFORM BACTERIA ENTERING THE LEAKY PIPES FROM THE OUTSIDE, RESULTING IN CONFLICT WITH ENVIRONMENTAL QUALITY STANDARDS. WE ARE REQUESTING \$6 MILLION TO DEAL WITH THIS PROBLEM IN FY 1985.

THE NEGATIVE IMPACT OF THE POOR WATER SYSTEM CANNOT BE OVER-EMPHASIZED. THE SYSTEM LENDS ITSELF TO DISEASE AND EPIDEMIC. ONE MAJOR HEALTH DISASTER WILL DESTROY OUR CAREFULLY BUILT TOURIST MARKET. THE NEARLY 150,000 VISITORS A YEAR REQUIRE GOOD WATER. THE NEW HEALTH CARE CENTER MUST HAVE A BUILT-IN SPRINKLER SYSTEM TO MEET STANDARDS, BUT

WITH WATER PRESSURE AVAILABLE ONLY SEVERAL HOURS A DAY ITS USEFULLNESS IS SERIOUSLY REDUCED.

AN ADDITIONAL \$1,000,000 IS REQUESTED FOR WATER NEEDS ON THE ISLAND OF ROTA TO REPLACE THE DELIVERY SYSTEM ORIGINALLY INSTALLED BY THE JAPANESE ADMINISTRATION. THIS REQUEST INCLUDES FUNDS TO EXTEND THE SYSTEM FOR THE NEW SINAPOLO HOMESTEAD SUBDIVISION.

HARBOR

WE HAVE BEEN STRESSING THE URGENT NEED FOR HARBOR IMPROVEMENTS FOR LONGER THAN WE HAVE BEEN A COMMONWEALTH. HARBOR AND DOCK FACILITIES ARE OBVIOUSLY OF CRITICAL IMPORTANCE TO ISLANDS. THE MOVEMENT OF GOODS IN COMMERCE, BUSINESS, FISHERIES, AND TRADE ALL DEPEND ON THESE FACILITIES. NUMEROUS PRIVATE BUSINESS CONCERNS, BOTH AMERICAN AND FOREIGN, HAVE EXPRESSED INTEREST IN COMMENCING ACTIVITIES IN THE COMMONWEALTH IF ONLY PORT AND HARBOR FACILITIES WOULD BE IMPROVED.

THE PRESENT SAIPAN DOCK FACILITY WAS ORIGINALLY CONSTRUCTED DURING JAPANESE TIMES, WAS REFURBISHED BY THE U.S. MILITARY AT THE END OF THE WAR, AND IS INADEQUATE AND EVEN DANGEROUS. THE LONG DOCK, CHARLIE DOCK, HAS FAR EXCEEDED ITS LIFE EXPECTANCY AND COULD COLLAPSE AT ANY TIME.

ADDITIONALLY, THE SAIPAN HARBOR IS EXPERIENCING SERIOUS CONGESTION. SHIPS CAN BE SERVICED ONLY ONE AT A TIME. THIS MEANS THAT VESSELS MUST FREQUENTLY ANCHOR OFFSHORE, OFTEN FOR AS LONG AS THREE DAYS, WAITING FOR SPACE AT THE DOCK. OBVIOUSLY, THIS ACTS AS AN IMPEDIMENT TO INCREASED ECONOMIC ACTIVITY, INCREASES SHIPPING COSTS AND CONSUMER PRICES, AND REDUCES THE POTENTIAL COMPETITIVENESS OF GOODS PROCESSED OR HANDLED IN THE COMMONWEALTH.

A DEPARTMENT OF THE INTERIOR/ARMY CORPS OF ENGINEERS STUDY MANDATED BY CONGRESS HAS DEFINED THE SOLUTION AS A NEW SAIPAN HARBOR COMPLEX TO BE CONSTRUCTED AT AN ESTIMATED COST OF \$45 MILLION IN A THREE PHASE EFFORT. WE WOULD HOPE TO COMMENCE PHASE I OF THIS EFFORT IN FY 1985. SOME \$15 MILLION IS NEEDED FOR THIS PURPOSE.

TINIAN HAS A ONCE BEAUTIFUL DEEPWATER HARBOR, BUT THE PASSAGE OF TIME AND WEAR AND TEAR HAVE CONTRIBUTED TO SUBSTANTIAL DETERIORATION. THE BREAKWATER, BUILT OF STEEL PILES, IS SERIOUSLY CORRODED AND WEAKENED. THERE IS A NEED TO DREDGE AND WIDEN THE CHANNEL. PARTS OF THE PIER NEED REPAIR AND RESURFACING.

IN VIEW OF THE LEASE OF TWO-THIRDS OF TINIAN BY THE MILITARY, WE ENCOURAGE THE PENTAGON AND CONGRESS TO CONSIDER UTILIZING MILITARY CONSTRUCTION FUNDS TO MAKE BASIC REPAIRS AND IMPROVEMENTS TO THE TINIAN HARBOR. THIS WOULD REDUCE TIME AND COST AT ANY LATER POINT THAT LARGER IMPROVEMENTS ARE DESIRED AND WOULD BENEFIT BOTH THE MILITARY AND THE PEOPLE OF TINIAN, IN THE SPIRIT OF THE COVENANT.

WE ARE ALSO COGNIZANT OF A NEED TO BUILD A PERMANENT BREAKWATER FOR THE ROTA HARBOR IN THE FUTURE, SO THAT THE PRESENT IMPROVEMENTS WILL NOT BE DESTROYED EVENTUALLY. ADDITIONALLY, FURTHER DREDGING OF THE ROTA HARBOR AND WIDENING OF THE CHANNEL WILL BECOME NECESSARY TO ACCOMMODATE FUTURE DEVELOPMENT. EVEN WITH IMPROVEMENTS MADE TO DATE, ONLY SMALL TONNAGE VESSELS CAN ENTER THE ROTA HARBOR FREELY.

CONSEQUENTLY, WE WOULD LIKE TO REQUEST SOME \$2 MILLION IN FY 1985 TO MAKE BASIC NECESSARY IMPROVEMENTS IN THE TINIAN AND ROTA HARBOR FACILITIES.

ROADS

THE BASIC ROAD STRUCTURE ON SAIPAN DATES BACK TO THE JAPANESE ADMINISTRATION AND THE END OF WORLD WAR II. THE PAVED ROADS ON TINIAN WERE LARGELY BUILT IN WORLD WAR II. ROTA IS NOW GETTING ITS FIRST PAVED ROAD OF ELEVEN MILES LINKING THE VILLAGE AND THE AIRPORT. ALL OTHER ROADS ON ROTA ARE UNSURFACED, INADEQUATE, DIRTY, DUSTY, AND PRIMITIVE. EVEN THIS PAVING EFFORT HAS TO BE APPROACHED IN PHASES DUE TO THE TIGHT FUNDING SITUATION. PHASE I CONSISTED OF FOUR MILES AND IS NOW COMPLETE. PHASE II, NOW UNDERWAY, WILL COMPLETE ANOTHER FOUR MILES. HOPEFULLY, IF FUNDS ARE AVAILABLE IN FY 1985, WE MAY BE ABLE TO COMPLETE THIS PROJECT.

ROADS IN THE NORTHERN MARIANAS WERE ORIGINALLY DESIGNED AND CONSTRUCTED TO HANDLE ONLY LIGHT TRAFFIC. DEVELOPMENT, HEAVY TRANSPORT, AND 40 TO 50 YEARS OF USE, WEATHER, AND INADEQUATE MAINTENANCE HAVE TAKEN THEIR TOLL, AND THE ROADS ARE NOW BADLY DETERIORATED, DIMINISHED IN UTILITY, AND IN NEED OF RECONSTRUCTION OR PAVING.

WE WOULD LIKE TO COMPLETE ROUGHLY 10 TO 15 MILES OF SUCH WORK IN FY 85 AT A COST OF ROUGHLY \$7.5 MILLION. RAPID DEVELOPMENT AND INCREASED TRAFFIC IS CAUSING RAPID AND SERIOUS DETERIORATION OF EXISTING ROADS. NEW AND EXPANDING RESIDENTIAL AND OTHER AREAS ARE INADEQUATELY SERVED, AND THE INFERIOR ROADS CONTRIBUTE TO EROSION. DURING THE DRY SEASON, HEAVY AND WIDESPREAD CORAL DUST CONTRIBUTES TO HEALTH AND OTHER AILMENTS AMONG OUR PEOPLE.

OTHER INFRASTRUCTURE

OTHER MAJOR INFRASTRUCTURE NEEDS RELATE TO ELECTRIC POWER GENERATION AND DISTRIBUTION, WASTEWATER DISPOSAL, PARKS, RECREATION, AND PUBLIC FACILITIES.

DEMAND FOR ELECTRICAL POWER ON SAIPAN HAS BEEN INCREASING STEADILY OVER THE PAST SEVERAL YEARS. IN ADDITION, AS OUR CURRENT GENERATORS GET OLDER, THE DOWN TIME FOR MAINTENANCE AND REPAIRS INCREASES. TO COVER THE INCREASED DEMAND FOR POWER, A FIFTH GENERATOR AT A COST OF \$7 MILLION IS REQUIRED FOR THE SAIPAN POWER PLANT.

ON ROTA, A NEW 250 KW GENERATOR COSTING \$1 MILLION IS REQUIRED TO REPLACE CURRENT EQUIPMENT AND MEET THE NEEDS OF AN EXPANDING POPULATION AND ECONOMY. THE PRESENT EQUIPMENT ON ROTA WILL EXPERIENCE BREAKDOWNS AND REPAIRS WITH INCREASING FREQUENCY IN THE COMING YEARS, ACCORDING TO OUR GOVERNMENT ENGINEERS.

POWER DISTRIBUTION LINES AND HARDWARE ON SAIPAN, TINIAN, AND ROTA ARE ALL VERY OLD, UNDERSIZED, CORRODED, AND IN DIRE NEED OF REPLACEMENT. OVER HALF THE WOODEN POLES IN THE SYSTEM ARE OVER 20 YEARS OLD AND SUBJECT TO MASSIVE TERMITE DAMAGE. AT LEAST \$10 MILLION IS NEEDED TO UPGRADE THE POWER DISTRIBUTION SYSTEM.

WHILE THE ENVIRONMENTAL PROTECTION AGENCY HAS PROVIDED FUNDS FOR DEVELOPMENT OF OUR WASTEWATER DISPOSAL SYSTEM, THERE ARE LIMITATIONS AND RESTRICTIONS ON THESE FUNDS, AND ADDITIONAL FUNDING IS REQUIRED FOR COLLECTION SEWERS AND LATERALS TO COMPLEMENT THE EPA FUNDS AND CONNECT HOUSES TO THE SEWER SYSTEM. THIS IS OF CRITICAL IMPORTANCE TO HEALTH AND SANITATION IN THE COMMONWEALTH. \$1.5 MILLION IS NEEDED IN FY 1985 FOR THIS WORK.

IN THE AREA OF PARKS, RECREATION, AND PUBLIC FACILITIES, WE ARE REQUESTING \$3 MILLION TO DEVELOP THE AMERICAN MEMORIAL PARK INTO A FITTING MEMORIAL TO THE BRAVE AMERICAN SOLDIERS WHO SPILLED THEIR BLOOD ON OUR BEACHES IN THE FINAL DAYS OF WORLD WAR II IN ORDER TO LIBERATE THE NORTHERN MARIANAS FROM THE JAPANESE, ALONG WITH THOSE LOCAL CITIZENS WHO ALSO LOST THEIR LIVES DURING THE CONFLICT. A CULTURAL AND PERFORMING

ARTS CENTER WOULD ENHANCE THE ATTRACTIVENESS OF THE NORTHERN MARIANAS FOR TOURISTS, STIMULATING THE LOCAL ECONOMY AND INSPIRING NORTHERN MARIANAS CRAFTSMEN AND ARTISTS AT THE SAME TIME AS IT WOULD INCREASE PUBLIC VISIBILITY AND AWARENESS OF THE ISLANDS' CULTURE, ARTS, CRAFTS, AND HISTORICAL ORIGIN. \$6.6 MILLION IS NEEDED FOR THIS VALUABLE PROJECT.

NORTHERN MARIANAS COLLEGE

ESTABLISHED IN 1976, THE NORTHERN MARIANAS COLLEGE HAS LONG BEEN WITHOUT A PERMANENT CAMPUS. FINALLY, ON FEBRUARY 17, 1984, THE GOVERNOR DESIGNATED THE CURRENT DR. TORRES HOSPITAL TO BE THE PERMANENT SITE FOR THE COLLEGE. SOME BUILDINGS HAVE ALREADY BEEN TRANSFERRED TO THE COLLEGE, AND THE REMAINDER WILL BE TURNED OVER UPON COMPLETION OF THE NEW HEALTH CENTER.

HOWEVER, THE SUBJECT BUILDINGS ARE IN A STATE OF DETERIORATION, AND LOCAL FUNDS ARE NOT PRESENTLY AVAILABLE FOR RENOVATION OR MAINTENANCE. SOME \$2.9 MILLION IS NEEDED IN FY 1985 FOR STABILIZATION, RENOVATION, PHYSICAL SITE DEVELOPMENT, AND COLLATERAL EQUIPMENT AND SUPPLIES.

THE NORTHERN MARIANAS COLLEGE IS A CRUCIAL ELEMENT IN OUR EFFORTS TO DEVELOP THE COMMONWEALTH'S HUMAN RESOURCES -- OUR MOST VALUABLE. IT BEGAN ITS EXISTENCE AS PART OF OUR EFFORT TO BRING TEACHING STANDARDS IN COMMONWEALTH SCHOOLS UP TO THOSE OF THE UNITED STATES. IT HAS BECOME INCREASINGLY DIVERSIFIED OVER THE YEARS AND NOW HAS A SIGNIFICANT EMPHASIS IN BUSINESS, COMPUTERS, AND AGRICULTURE AS WELL. IT BECAME A CANDIDATE FOR ACCREDITATION IN JANUARY 1983. WE HOPE THAT YOU WILL ACT FAVORABLY ON OUR REQUEST FOR FUNDING TO GIVE THE COLLEGE A PERMANENT HOME, AS WE BELIEVE IT WILL MAKE A SIGNIFICANT CONTRIBUTION IN OUR QUEST TO ACHIEVE SELF-SUFFICIENCY.

FRUIT FLY ERADICATION

WITH ITS GOOD FARMLAND AND ABUNDANCE OF RAIN, THE ISLAND OF ROTA HAS THE POTENTIAL TO BE THE "FRUITBASKET" OF THE MARIANAS. UNFORTUNATELY, ROTA HAS SHARED WITH GUAM THE RAVAGES OF THE MELON FLY, A VERY SERIOUS AGRICULTURAL PEST.

BECAUSE OF THE PRESENCE OF THIS PEST IN ROTA AND GUAM, AGRICULTURAL PRODUCTION IN THE MARIANAS BOTH FOR EXPORT AND FOR LOCAL CONSUMPTION HAS BEEN STIFLED. REQUEST FOR ASSISTANCE FROM THE USDA WAS MADE JOINTLY BY GUAM AND CNMI, AND IN 1983, A TEAM OF EXPERTS FROM THE USDA'S ANIMAL PLANT INSPECTION SERVICE (APHIS), PLANT PROTECTION AND QUARANTINE (PPQ), AND AGRICULTURE RESEARCH SERVICE (ARS) VISITED THE CNMI AND GUAM TO INVESTIGATE AND REPORT ON THE MELON FLY PROBLEM IN THE MARIANAS AND TO MAKE RECOMMENDATIONS FOR ERADICATION. AS A RESULT OF THEIR INVESTIGATION, THE USDA TEAM OF EXPERTS RECOMMENDED METHODS OF ERADICATION OF THE MELON FLY FROM ROTA AND GUAM AND ESTIMATED THE COST OF \$2.3 MILLION.

WE BELIEVE THIS IS A MATTER OF CRITICAL IMPORTANCE AND SOME URGENCY. DELAY WILL MAKE IT MORE DIFFICULT AND COSTLY TO ERADICATE THE MELON FLY FROM ROTA AND GUAM AND COULD RESULT IN THE INFESTATION SPREADING TO THE OTHER MARIANA ISLANDS WHICH ARE NOT NOW INFESTED. USDA HAS OFFERED TO PROVIDE PLANNING AND TECHNICAL ASSISTANCE IF FUNDING SOURCES CAN BE SECURED. OUR GOVERNMENT AND THE GOVERNMENT OF GUAM BOTH DESIRE TO ERADICATE THIS PEST. WE HOPE EVERY EFFORT WILL BE MADE BY THIS COMMITTEE AND THROUGHOUT THE EXECUTIVE BRANCH AND CONGRESS TO FIND FUNDS TO CARRY OUT THIS IMPORTANT UNDERTAKING.

NORTHERN MARIANA ISLANDS COMMISSION ON FEDERAL LAWS

SECTION 504 OF THE COVENANT PROVIDES FOR A COMMISSION ON FEDERAL LAWS, MADE UP OF REPRESENTATIVES OF BOTH THE UNITED STATES AND THE COMMONWEALTH TO REVIEW THE LAWS OF THE UNITED STATES AND MAKE RECOMMENDATION TO CONGRESS ON THE APPLICABILITY OF THOSE LAWS. THE COMMISSION'S FINAL REPORT TO THE U.S. CONGRESS IS NOT DUE UNTIL ONE YEAR AFTER TERMINATION OF THE TRUSTEESHIP AGREEMENT; HOWEVER, CURRENT FUNDING WILL SOON EXPIRE.

WE FEEL IT IS ESSENTIAL THAT FUNDING FOR THE COMMISSION BE RENEWED. THE BODY OF U.S. LAW IS LARGE AND COMPLEX, AND THE COMMISSION PERFORMS A VALUABLE SERVICE FOR BOTH THE UNITED STATES AND THE COMMONWEALTH.

ALTERNATE ENERGY SOURCES

WHILE I DON'T WANT TO DEVOTE ANY FURTHER TIME TO DISCUSSING THIS NEED, I WOULD LIKE TO SAY THAT THE SENATE DOES FULLY ENDORSE OUR GOVERNMENT'S POSITION ON THE NEED FOR \$1 MILLION FOR ALTERNATE ENERGY PROJECTS.

EXPANDED AIR SERVICE

THE NORTHERN MARIANAS WOULD BENEFIT GREATLY IF AIRLINE SERVICE FROM AND TO JAPAN COULD BE EXPANDED. ALL NIPPON AIRWAYS IS INTERESTED IN SERVING THE COMMONWEALTH WITH CHARTER FLIGHTS. SERVICE FROM AND TO OSAKA WOULD ALLOW US TO TAP A MARKET OF GREAT POTENTIAL; THIS MARKET IS SIGNIFICANTLY LARGER THAN THE NAGOYA MARKET PRESENTLY SERVED BY CONTINENTAL/AIR MICRONESIA. CURRENTLY, IT SEEMS BOTH THE UNITED STATES AND JAPAN VIEW AIR SERVICE TO THE COMMONWEALTH WITHIN THE CONTEXT OF GENERAL BILATERAL TRADE RELATIONS. FROM OUR STANDPOINT, THE COMMONWEALTH WOULD LIKE TO SEE THE AIR SERVICE QUESTION DE-LINKED FROM THE INTERACTION

OF TWO GREAT ECONOMIC POWERS. OUR MINISCULE ECONOMY NEEDS ALL THE BUSINESS IT CAN GET.

LAND GRANT STATUS

AGRICULTURE HAS ALWAYS BEEN THE FOUNDATION OF ISLAND LIFE AND CULTURE. ALTHOUGH THERE HAVE BEEN NUMEROUS CHANGES OVER THE PAST SEVERAL CENTURIES, WITH INFLUENCES FROM FOUR FOREIGN GOVERNMENTS, AGRICULTURE CONTINUES TO PLAY A CRITICAL ROLE IN DAILY ISLAND LIFE.

GOVERNMENT SUPPORT OF AGRICULTURE SINCE WORLD WAR II HAS BEEN MINIMAL, AT BEST. WHERE ONCE OVER 35,000 ACRES OF LAND WERE BEING CULTIVATED IN THE NORTHERN MARIANA ISLANDS, AS OF 1983 APPROXIMATELY 500 ACRES REMAIN UNDER CULTIVATION.

LAND GRANT STATUS WOULD PROVIDE THE YOUNG COMMONWEALTH GOVERNMENT A FUNDING BASE FOR THE REGROWTH OF THE AGRICULTURE INDUSTRY. LAND GRANT WOULD ALSO OPEN DOORS TO ORGANIZED TECHNICAL ASSISTANCE NOT NOW AVAILABLE WITHIN THE COMMONWEALTH.

EMPHASIS IN RECENT YEARS HAS BEEN MADE TO REDUCE GOVERNMENT OPERATIONS EXPENSE AND STRENGTHEN THE PRIVATE SECTOR. A STRONG PROGRAM OF BOTH FORMAL AND INFORMAL EDUCATION IN THE FIELD OF AGRICULTURE HAS THE POTENTIAL FOR CREATING NUMEROUS CAREERS AND JOB OPPORTUNITIES IN THE OVERALL AGRICULTURE SYSTEM.

PROGRAMS UNDER LAND GRANT WERE FIRST REQUESTED BY THE COMMONWEALTH IN FEBRUARY OF 1982 AFTER THE PASSAGE OF TITLE IV, SECTION 60 (c) OF THE OMNIBUS TERRITORIAL ACT OF 1980 (P.L. 96-597). THE LAW AUTHORIZED THE SECRETARY OF AGRICULTURE TO EXTEND, AT HIS DISCRETION, PROGRAMS ADMINISTERED BY USDA TO THE COMMONWEALTH. IN JULY OF 1982 THE SECRETARY

OF AGRICULTURE REPLIED THAT MANY PROGRAMS REQUIRED LAND GRANT COLLEGE OR BLOCK LAND GRANT COLLEGE STATUS AND RECOMMENDED ALTERNATIVE FUNDING OF \$120-150 THOUSAND BE EXECUTED BEGINNING IN FY 83 TO INITIATE APPROPRIATE EXTENSION AND COOPERATION RESEARCH PROGRAMS. FUNDING IN FY 1983 TOTALED \$145,000 AND BY 1984 TOTALED \$140,000. REQUESTS BY THE PRESENT ADMINISTRATION FOR FUNDING ASSISTANCE FOR RESIDENT INSTRUCTION PROGRAMS WERE DENIED BY THE SECRETARY DUE TO LACK OF LAND GRANT STATUS.

THE COMMONWEALTH HAS AN INSTITUTION OF HIGHER EDUCATION WHICH IS A CANDIDATE FOR ACCREDITATION. THE INSTITUTION WAS FOUNDED BY PROCLAMATION IN 1976, WAS ESTABLISHED AS A COMMONWEALTH ENTITY IN 1981 BY EXECUTIVE ORDER, AND WAS GIVEN A STATUTORY BASE BY THE THIRD COMMONWEALTH LEGISLATURE IN 1983 BY THE PASSAGE OF P.L. 3-43. THE NORTHERN MARIANAS COLLEGE HAS BEEN DESIGNATED BY THIS PUBLIC LAW AS THE LAND GRANT COLLEGE FOR THE COMMONWEALTH.

PUBLIC LAW 96-374 ESTABLISHED LAND GRANT STATUS FOR THE COMMUNITY COLLEGE OF AMERICAN SAMOA AND THE COLLEGE OF MICRONESIA IN 1980. THE COMMONWEALTH WAS OMITTED AND REMAINS THE ONLY STATE OR TERRITORY UNDER THE U.S. FLAG NOT BEING SERVED BY A LAND GRANT INSTITUTION. THE COLLEGE OF MICRONESIA HAS REQUESTED THE USDA TO INCLUDE ITS ENDORSEMENT IN THE 1985 BUDGET, AND CLARIFICATION OF THE NORTHERN MARIANAS COLLEGE STATUS SHOULD BE MADE DURING THIS PROCESS.

THE NORTHERN MARIANA ISLANDS COMMISSION ON FEDERAL LAWS HAS STRONGLY RECOMMENDED THE INCLUSION OF THE COMMONWEALTH UNDER THE LAND GRANT PROGRAM. IN ITS REPORT ENTITLED "STAFF RECOMMENDATION ON LAND GRANT COLLEGES", PROGRAM DESCRIPTION, APPLICABILITY, AND PROPOSED LEGISLATIVE LANGUAGE HAVE BEEN DEVELOPED TO INCLUDE THE COMMONWEALTH. ADDITIONALLY, DURING THE NOVEMBER 1983 MEETING OF THE PACIFIC BASIN DEVELOPMENT COUNCIL, A RESOLUTION SPONSORED BY THE CURRENT ADMINISTRATION WAS

UNANIMOUSLY ENDORSED BY ALL OF THE ISLAND GOVERNORS IN THE COUNCIL FOR THE GRANTING OF LAND GRANT STATUS TO THE COMMONWEALTH.

IN CONCLUSION, REPEATED REQUESTS FROM THE COMMONWEALTH ADMINISTRATION, BOTH LEGISLATIVE AND EXECUTIVE BRANCHES, TO THE U.S. CONGRESS, THE DEPARTMENT OF THE INTERIOR, AND THE DEPARTMENT OF AGRICULTURE HAVE NOT RESULTED IN LAND GRANT STATUS FOR THE COMMONWEALTH TO DATE. CONTINUED EFFORTS AND ADOPTION OF NECESSARY LEGISLATION AWARDING LAND GRANT STATUS TO THE COMMONWEALTH IS CRUCIAL TO THE REGROWTH OF OUR AGRICULTURE INDUSTRY.

WAR CLAIM

THE MICRONESIAN CLAIMS COMMISSION WAS ESTABLISHED IN 1971 AND PROCEEDED TO DETERMINE NECESSARY, JUST AND FAIR WARTIME DAMAGES TO BE AWARDED. WHILE THE GREATER PORTION OF THESE CLAIMS HAS ALREADY BEEN PAID, SOME \$24 MILLION IS STILL DUE UNDER TITLE I, WHICH INCLUDED CLAIMS FOR THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS.

UNDER TITLE I, JAPAN WAS TO PAY 50% OF THE CLAIMS. HOWEVER, AN AGREEMENT SIGNED IN 1969 BY THE UNITED STATES AND JAPAN SUPPOSEDLY FREED JAPAN OF ANY FUTURE LIABILITY UNDER TITLE I.

THIS AGREEMENT WAS MADE WITHOUT ANY CONSULTATION WHATSOEVER WITH REPRESENTATIVES FROM THE MARIANAS OR OTHER MICRONESIAN COMMUNITIES. IT WOULD SEEM THAT THIS UNILATERAL ACTION BY THE U.S., RELEASING JAPAN FROM ANY FUTURE LIABILITY, MAKES THE U.S. GOVERNMENT LIABLE FOR THE FULL \$24 MILLION STILL DUE UNDER TITLE I.

TITLE I WAR CLAIMS IS A SUBJECT THAT SEEMS TO DRAG ALONG FROM YEAR TO YEAR WITHOUT BEING RESOLVED. WE WOULD HOPE THIS LONG OUTSTANDING

ISSUE COULD BE RESOLVED THIS YEAR, IF POSSIBLE, BY FULL PAYMENT OF THE UNPAID BALANCE UNDER TITLE I.

UNDER SECTION 904 OF THE COVENANT, THE COMMONWEALTH IS GUARANTEED OPPORTUNITIES TO PRESENT VIEWS IN INTERNATIONAL MATTERS AND FREEDOM TO PARTICIPATE IN INTERNATIONAL ORGANIZATIONS CONCERNING SOCIAL, ECONOMIC, EDUCATION, SCIENTIFIC, TECHNICAL AND CULTURAL MATTERS.

WHILE HIGH JAPANESE OFFICIALS HAVE CONSISTENTLY TAKEN THE POSITION THAT THEIR GOVERNMENT HAS ALREADY FULFILLED ITS OBLIGATIONS ON THE SUBJECT, IT IS OUR FIRM BELIEF THAT THE JAPANESE GOVERNMENT MAY BE MORE RECEPTIVE TO DISCUSSION OF THIS SENSITIVE ISSUE IF IT IS APPROACHED IN TERMS OF GOODS AND TECHNICAL ASSISTANCE. TO ACCOMPLISH THIS OBJECTIVE, THE U.S. GOVERNMENT, PREFERABLY THE STATE DEPARTMENT, MUST ARRANGE FOR TOP LEVEL DISCUSSIONS WITH APPROPRIATE JAPANESE OFFICIALS IN WHICH A DELEGATION FROM THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS SHOULD ATTEND AND PARTICIPATE.

IN ANY FUTURE DISCUSSIONS WITH JAPAN ABOUT WAR CLAIMS, IT SEEMS THAT THE COMMONWEALTH SHOULD PARTICIPATE AND BE FULLY INVOLVED. IF, IN THE END, THIS PLAN FAILS TO BRING RESULTS, WE WILL HAVE NO OTHER RECOURSE BUT TO APPEAL TO THE CONGRESS OF THE UNITED STATES TO APPROPRIATE THE \$24 MILLION STILL DUE TO THE MICRONESIAN AND NORTHERN MARIANAS PEOPLE.

TT SOCIAL SECURITY PRIOR SERVICE BENEFITS

WHEN THE TRUST TERRITORY SOCIAL SECURITY RETIREMENT FUND COMMENCED OPERATION IN 1968, ONE OF ITS CONSTITUENT PROGRAMS PROVIDED PRIOR SERVICE BENEFITS TO THE HUNDREDS OF MICRONESIANS WHO HAD WORKED FOR THE TT GOVERNMENT OR THE U.S. NAVAL ADMINISTRATION FOR AT LEAST FIVE PRIOR YEARS. THIS WAS NOT ONLY IN RECOGNITION OF THEIR LOYAL SERVICE, BUT A RECOGNITION THAT THE LOW, PRE-1968 WAGES WHICH THEY RECEIVED WERE NOT

SUFFICIENT FOR THEM ADEQUATELY TO PROVIDE FOR THEIR RETIREMENT YEARS IN A FULLY-MONETIZED ECONOMY CHARACTERIZED BY AN INCREASE IN IMPORTED GOODS, MUCH HIGHER MINIMUM WAGES, AND RAMPANT INFLATION.

WE NOW UNDERSTAND THAT THE DEPARTMENT OF THE INTERIOR PLANS TO DROP THE PRIOR SERVICE BENEFITS PROGRAM FROM ITS FUNDING REQUESTS AFTER TERMINATION OF THE TRUSTEESHIP AGREEMENT. IT IS OUR POSITION THAT CUT-OFF OF THESE BENEFITS AT TERMINATION OF THE TRUSTEESHIP AGREEMENT WOULD BREAK FAITH WITH FORMER EMPLOYEES AND THEIR SURVIVORS, REPUDIATE THE VALUE OF THEIR SERVICES, AND TARNISH THE CREDIBILITY OF THE UNITED STATES THROUGHOUT MICRONESIA.

THE FACT THAT THE PROGRAM WAS ENACTED AFTER THEIR SERVICE WAS RENDERED IN NO WAY LESSENS THE OBLIGATION OF THE UNITED STATES. THESE BENEFICIARIES WERE LED TO EXPECT A CERTAIN RETIREMENT INCOME, AND MANY ADJUSTED THEIR CONSUMPTION AND SAVINGS PATTERNS SINCE 1968 IN EXPECTATION THAT THESE PROMISED PAYMENTS WOULD BE THERE DURING THEIR RETIREMENT YEARS. TERMINATION OF U.S. FUNDING WOULD NOT BE FAILURE TO MEET NEW OBLIGATIONS WHICH SHOULD BE ASSUMED BY THE EMERGING GOVERNMENTS, BUT A FAILURE BY THE U.S. TO MEET ITS OWN OLD OBLIGATION TO ITS OWN EMPLOYEES.

IT IS COMMONLY THE CASE WHEN AN EMPLOYER ESTABLISHES A PENSION PLAN, THAT CREDIT IS GIVEN FOR SERVICE PRIOR TO THE EFFECTIVE DATE, AND THAT THE COST THEREOF IS PAID COMPLETELY BY THE EMPLOYER. THERE ARE MANY DIFFERENT WAYS IN WHICH THIS PRIOR SERVICE COST CAN BE FINANCED. ONE METHOD IS FOR THE IMMEDIATE LUMP-SUM PAYMENT OF AN AMOUNT WHICH, TOGETHER WITH INTEREST EARNINGS, WOULD MEET THE PRIOR SERVICE BENEFIT COST AS IT ARISES (THE METHOD FOLLOWED TO DATE IN THE TRUST TERRITORY). YET ANOTHER METHOD IS TO MAKE EQUAL ANNUAL PAYMENTS FOR A FIXED NUMBER OF YEARS WHICH, TOGETHER WITH INTEREST EARNINGS, WOULD MEET BENEFIT AND ADMINISTRATIVE COSTS OVER THE YEARS AS THEY ARISE.

THE TOTAL FUTURE LIABILITY OF THE PRIOR SERVICE BENEFIT PROGRAM IS APPROXIMATELY \$26 MILLION. ABOUT 42% OF THIS, OR SOME \$10 MILLION, WILL ACCRUE TO NORTHERN MARIANA ISLANDS' BENEFICIARIES. THE COMMONWEALTH CANNOT AFFORD TO TAKE ON THIS ADDITIONAL FISCAL BURDEN. NOR CAN THE OTHER NEW MICRONESIAN GOVERNMENTS. IT SIMPLY IS NOT OUR RESPONSIBILITY TO PAY THE RETIREMENT OF U.S. NAVY AND TT GOVERNMENT EMPLOYEES, NOR CAN WE AFFORD TO DO SO. ON THE OTHER HAND, IT WOULD BE IMMORAL AND UNETHICAL TO DENY THESE FAMILIES THE RETIREMENT INCOME THEY WERE LED TO EXPECT.

ADDITIONALLY, IT IS OUR POSITION THAT THE FEDERAL GOVERNMENT HAS A LEGAL OBLIGATION TO FUND THESE BENEFITS, UNDER THE PROVISIONS OF SECTION 606(a) OF THE COVENANT. CONSEQUENTLY, WE RECOMMEND THE AUTHORIZATION OF A RELATIVELY SMALL ONE-TIME APPROPRIATION (\$14 MILLION) TO BRING THE ASSET VALUE OF THE BOTH THE MICRONESIAN AND NORTHERN MARIANA ISLANDS FUNDS TO A LEVEL THAT WILL PRODUCE SUFFICIENT REVENUES TO FUND ALL BENEFITS UNTIL THEY EXPIRE.

U.S. CITIZENSHIP/TRUSTEESHIP TERMINATION

SEVERAL PROVISIONS OF THE COVENANT TO ESTABLISH A COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS IN POLITICAL UNION WITH THE UNITED STATES OF AMERICA WILL NOT BECOME EFFECTIVE UNTIL TERMINATION OF THE U.S. TRUSTEESHIP FOR MICRONESIA. CHIEF AMONG THESE ARE U.S. CITIZEN OR NATIONAL STATUS FOR THE PEOPLE OF THE COMMONWEALTH. AT THE TIME OUR PEOPLE APPROVED THE COVENANT, THE GENERAL UNDERSTANDING WAS THAT THE TRUSTEESHIP WOULD BE TERMINATED IN 1981. IT IS ALREADY WELL PAST THAT DATE, THE COVENANT WAS APPROVED FULLY EIGHT YEARS AGO, AND YET THE TRUSTEESHIP LINGERS ON, WITH NO CERTAIN DATE FOR ITS TERMINATION.

OUR PEOPLE GREATLY DESIRE FULL ACCEPTANCE INTO THE AMERICAN FAMILY AS CITIZENS OF THE UNITED STATES WITH FULL PRIVILEGES AND IMMUNITIES. WE

HAVE MADE CERTAIN SACRIFICES AND ASSUMED CERTAIN OBLIGATIONS; WE FEEL IT IS ONLY PROPER THAT WE SECURE THE BENEFITS PROMISED BY THE COVENANT.

WE UNDERSTAND U.S. CONCERN ABOUT DIPLOMATIC AND POLITICAL PROBLEMS WITH TERMINATING THE TRUSTEESHIP FOR ONE AREA AND NOT ANOTHER, ALTHOUGH SUFFICIENT LEGAL JUSTIFICATION OR PRECEDENT MAY EXIST TO DO THIS. IF TERMINATION OF THE TRUSTEESHIP CANNOT BE ACHIEVED FOR ALL OF MICRONESIA OR FOR THE NORTHERN MARIANAS SEPARATELY, WE ASK THAT THE FEDERAL GOVERNMENT CONSIDER LEGISLATION MAKING OR ALLOWING THE PEOPLE OF THE COMMONWEALTH TO BECOME U.S. CITIZENS, IN THE SPIRIT OF THE COVENANT.

RECAPITULATION

TO RECAP BRIEFLY, I HAVE HIGHLIGHTED KEY AREAS IN WHICH THE COMMONWEALTH HAS CRITICAL NEEDS OR CONCERNS:

COMMONWEALTH HEALTH CENTER - \$10 MILLION
 ROTA & TINIAN HEALTH FACILITIES - \$900,000
 WATER SUPPLY & DISTRIBUTION SYSTEMS - \$6 MILLION
 HARBOR DEVELOPMENT, SAIPAN - \$15 MILLION
 HARBOR DEVELOPMENT, ROTA & TINIAN - \$2 MILLION
 HIGHWAY IMPROVEMENT - \$7.5 MILLION
 ELECTRICAL GENERATOR, SAIPAN - \$7 MILLION
 ELECTRICAL GENERATOR, ROTA - \$1 MILLION
 POWER DISTRIBUTION SYSTEM - \$1 MILLION
 WASTEWATER SYSTEM - \$1.5 MILLION
 AMERICAN MEMORIAL PARK - \$3 MILLION
 CULTURAL & PERFORMING ARTS CENTER - \$6.6 MILLION
 NORTHERN MARIANAS COLLEGE - \$2.9 MILLION
 FRUIT FLY ERADICATION - \$2.3 MILLION
 ALTERNATE ENERGY SOURCES - \$ 1 MILLION

I HAVE ALSO MENTIONED WAR CLAIMS, THE INTERNAL REVENUE CODE AND OUR LOCAL TAX SYSTEM. I HAVE STRESSED THE NEED FOR EXPANDED AIR SERVICE AND FOR LAND GRANT STATUS FOR THE COMMONWEALTH. I HAVE TOUCHED UPON THE ISSUES OF SOCIAL SECURITY PRIOR SERVICE BENEFITS AND U.S. CITIZENSHIP/TRUSTEESHIP TERMINATION. I HAVE NOTED THE NEED FOR FUNDING TO CONTINUE THE WORK OF THE JOINT COMMISSION ON FEDERAL LAWS. I HAVE SUGGESTED MILITARY FUNDING AS A POSSIBLE MEANS OF ACCOMPLISHING THE NECESSARY UPGRADING OF THE TINIAN HARBOR FACILITIES. AND I HAVE SUGGESTED A PROVISION IN THE FUNDING AUTHORIZATION FOR THE COMMONWEALTH HEALTH CENTER AS ONE APPROACH TO MEETING HEALTH CARE NEEDS ON ROTA AND TINIAN ISLANDS.

CONCLUSION

MR. CHAIRMAN, THIS CONCLUDES MY PRESENTATION ON SOME OF THE MORE URGENT AND CRITICAL NEEDS AND CONCERNS OF THE COMMONWEALTH AS DETERMINED BY THE SENATE OF THE NORTHERN MARIANAS COMMONWEALTH LEGISLATURE.

AND WHILE I RECOGNIZE THE MANY DEMANDS PLACED ON THE GOVERNMENT OF THE UNITED STATES AND SYMPATHIZE WITH THE TREMENDOUS TASK AND BURDEN THE U.S. CONGRESS MUST FACE IN FUNDING A GREAT NATION, IT IS MY DEEP AND SINCERE HOPE THAT YOU WILL ACCOMMODATE THESE NEEDS SO IMPORTANT TO THE GROWTH, DEVELOPMENT, AND WELL-BEING OF OUR COMMONWEALTH AND HER PEOPLE, WHO REMAIN PROUD TO CONTINUE TO CALL THEMSELVES THE "NEWEST MEMBERS OF THE AMERICAN POLITICAL FAMILY".

IT HAS BEEN MY PLEASURE TO BE ABLE TO OFFER THIS TESTIMONY TO YOUR DISTINGUISHED SUBCOMMITTEE AND TO OUTLINE THESE NEEDS. ON BEHALF OF THE PEOPLE OF THE NORTHERN MARIANAS AND THE SENATE OF THE FOURTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE, I WANT TO THANK YOU VERY MUCH FOR YOUR TIME, PATIENCE AND UNDERSTANDING OF OUR NEEDS. I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU MAY HAVE. THANK YOU.

STATEMENT OF JUAN T. GUERRERO

I AM JUAN T. GUERRERO, CHAIRMAN OF THE COMMITTEE ON APPROPRIATIONS, HOUSE OF REPRESENTATIVES, FOURTH NORTHERN MARIANAS COMMONWEALTH LEGISLATURE. I WISH TO EXTEND TO YOU AND MEMBERS OF YOUR DISTINGUISHED SUBCOMMITTEE OUR HEARTFELT GRATITUDE FOR THE HONOR AND PRIVILEGE GIVEN OUR DELEGATION TO PRESENT OUR TESTIMONY IN SUPPORT OF THE FISCAL YEAR 1985 BUDGET SUBMISSION JUST PRESENTED BY OUR LIEUTENANT GOVERNOR PEDRO A. TENORIO.

BEFORE I ADDRESS THE BUDGET REQUEST FOR THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS FOR FISCAL YEAR 1985, I WISH TO REAFFIRM TO YOU THAT THE LEGISLATIVE BRANCH IS IN COMPLETE ACCORD WITH THE FY 1985 BUDGET TESTIMONY AND JUSTIFICATIONS PRESENTED TO YOU BY OUR EXECUTIVE OFFICIALS.

FOR FISCAL YEAR 1985, THE COVENANT PROVIDES A TOTAL OF \$29,027,000 EARMARKED AS FOLLOWS: \$17,105,000 FOR BASIC GOVERNMENT OPERATIONS; \$8,292,000 FOR CAPITAL IMPROVEMENT PROJECTS; AND, \$3,629,000 FOR THE ECONOMIC DEVELOPMENT PROJECTS. WE APPRECIATE THIS NECESSARY FINANCIAL ASSISTANCE. IT IS ALSO OUR UNDERSTANDING THAT THIS COMMITTEE HAS PROPOSED THE SUM OF \$1,600,000 TO CONTINUE CONSTRUCTION OF THE COMMONWEALTH HEALTH CENTER. UNFORTUNATELY, WE TOO SHARE THE OPINION EXPRESSED BY OUR EXECUTIVE OFFICIALS THAT THE PROPOSED FUNDING IS INSUFFICIENT TO PROVIDE ESSENTIAL EQUIPMENT FOR THE NEW BUILDING.

NEW COMMONWEALTH HEALTH CENTER

THE TOTAL PROJECT COST OF THE NEW HEALTH CENTER WILL BE \$30 MILLION. YOU HAVE APPROPRIATED \$20 MILLION FOR THIS PROJECT DURING THE PAST FISCAL YEARS. WE RESPECTFULLY REQUEST YOU TO APPROPRIATE AN ADDITIONAL \$10 MILLION FOR THIS FISCAL YEAR. A \$10 MILLION APPROPRIATION WILL PERMIT COMPLETION OF THE OVERALL PROJECT BY SEPTEMBER 1, 1985. IT WILL ALSO

HELP GUARANTEE THE SUCCESSFUL MAINTENANCE AND STAFFING OF WHAT WE INTEND TO BE THE FINEST HEALTH CENTER IN THE WESTERN PACIFIC.

WE PLEDGE OUR WILLINGNESS IN THE LEGISLATURE TO TAKE THE NECESSARY STEPS LOCALLY TO SUPPLEMENT OUR FEDERAL REQUEST. WE WILL FACE UP TO THE DIFFICULT LOCAL FUNDING ALTERNATIVES THAT WILL BE NECESSARY TO ENSURE THE SUCCESS OF THE HEALTH CENTER. FURTHERMORE, WE IN THE HOUSE OF REPRESENTATIVES REQUEST THE U.S. CONGRESS TO DIRECT THE U.S. PUBLIC HEALTH SERVICE TO OPERATE OR CONTRACT WITH A PRIVATE COMPANY FOR THE OPERATION OF THE NEW HEALTH CENTER. WE SIMPLY DO NOT HAVE THE EXPERTISE LOCALLY TO ADMINISTER OUR NEW FACILITY.

WE ALSO JOIN IN THE GOVERNOR'S REQUEST FOR AN ADDITIONAL \$900,000 IN CONSTRUCTION AND SUPPLY FUNDS FOR THE NEW ROTA AND TINIAN HEALTH DISPENSARIES.

WATER SYSTEM

EQUALLY IMPORTANT IN OUR LIST OF PRIORITIES, MR. CHAIRMAN, IS OUR WATER SUPPLY. WE HAVE TESTIFIED IN PREVIOUS YEARS OF THE VITAL NEED FOR FUNDS IN THIS AREA AND OUR NEED CONTINUES.

THE LACK OF ADEQUATE WATER FOR OUR CONSTITUENTS IS A PUBLIC HEALTH AND SANITARY HAZARD AND A BARRIER TO ECONOMIC DEVELOPMENT. AFTER YEARS OF WATER SYSTEM MISMANAGEMENT AND INADEQUACY, IT IS ONLY PRUDENT THAT OUR LOCAL GOVERNMENT FOCUSES ITS EFFORTS IN THIS AREA TO MEET THE INCREASING DEMANDS OF OUR GROWING COMMUNITY AND THE PRIVATE SECTOR. WE HAVE APPROPRIATED MUCH OF OUR COVENANT CIP FUNDS FOR WATER IMPROVEMENT. BUT THIS SOURCE OF FUNDING IS INADEQUATE TO REPLACE A CORRODING WATER DELIVERY SYSTEM PUT IN PLACE BY THE JAPANESE AND U.S. MILITARY ADMINISTRATIONS. THE MULTI-YEAR WATER SYSTEM DEVELOPMENT PROGRAM WILL REQUIRE \$6.25 MILLION IN THE FIRST YEAR. THE COST OF THE PROJECT IS

GOING TO BE HIGH AND WE HUMBL Y URGE YOUR SUBCOMMITTEE TO GIVE THIS REQUEST ITS FAVORABLE CONSIDERATION OF OUR REQUEST.

I ALSO WISH TO EXTEND OUR SINCERE APPRECIATION TO THE MEMBERS OF THE U.S. CONGRESS FOR HAVING MADE AVAILABLE THE SUM OF \$750,000 IN FISCAL YEAR 1983 FOR THE AIRPORT RAINWATER CATCHMENT AND TREATMENT SYSTEM. WITH ASSISTANCE SUCH AS THIS, OUR LOCAL GOVERNMENT WILL BE WELL ON ITS WAY TO ADDRESSING THE INADEQUACY OF OUR WATER SITUATION.

OTHER CIP REQUESTS

WE SUPPORT OTHER CIP APPROPRIATIONS REQUESTS PRIORITIZED BY OUR GOVERNMENT AS FOLLOWS: HARBOR, POWER, HIGHWAY, WASTEWATER, MEDICAL REFERRAL, AMERICAN MEMORIAL PARK, TRUST TERRITORY OF THE PACIFIC ISLANDS PROPERTIES, AND THE ARTS AND PERFORMANCE CENTER TO BE LOCATED WITHIN THE AMERICAN MEMORIAL PARK.

MELON FLY ERADICATION

OUR NEIGHBORING ISLAND TO THE SOUTH, GUAM, AND THE ISLAND OF ROTA ARE KNOWN TO HAVE BEEN INFESTED BY MELON FRUITFLIES. ERADICATION OF THIS PEST WILL REQUIRE APPROPRIATIONS OF \$300,000 FOR ROTA AND \$2 MILLION FOR GUAM. WE ASK YOUR SUBCOMMITTEE TO EXERT ITS INFLUENCE ON THE U.S. DEPARTMENT OF AGRICULTURE TO ASSIST US IN THIS AREA. WE KNOW THAT THIS PEST IS CAPABLE OF DESTROYING ABOUT 80 LOCAL CROPS AND VEGETABLES. YOUR ASSISTANCE IN THIS REGARD WOULD GO A LONG WAY IN AUGMENTING LOCAL EFFORTS TO UPGRADE THE LOCAL AGRICULTURAL SECTOR OF THE LOCAL ECONOMY.

LOCATING OF FEDERAL PROGRAMS
IN CNMI AND PACIFIC BASIN INITIATIVE PROGRAM

ALTHOUGH THE NORTHERN MARIANAS IS ELIGIBLE FOR VARIOUS BUSINESS, ECONOMIC AND COMMUNITY PROGRAMS FROM THE FEDERAL GOVERNMENT, WE HAVE NOT TAKEN ADVANTAGE OF THEM BECAUSE OF OUR RELATIVE UNFAMILIARITY ABOUT MANY OF THESE PROGRAMS BUT ALSO BECAUSE OF OUR DISTANCE FROM MANY OF THE PROGRAM'S OFFICES, MANY OF WHICH ARE EITHER LOCATED IN CALIFORNIA OR HAWAII.

WE URGE THE U.S. CONGRESS TO REQUIRE THAT THE FEDERAL AGENCIES EITHER INDIVIDUALLY STATION A REPRESENTATIVE ON SAIPAN OR JOINTLY CREATE A CENTRAL FEDERAL LIAISON OFFICE ON SAIPAN. WE ARE PARTICULARLY INTERESTED IN PROGRAMS AND SERVICES INVOLVED IN BUSINESS, ECONOMIC AND COMMUNITY DEVELOPMENT. MOREOVER, WE ENCOURAGE THE U.S. CONGRESS TO WORK WITH US TO DEVELOP AND ENACT A PACIFIC BASIN INITIATIVE PROGRAM.

TECHNICAL ASSISTANCE FOR PRIVATE SECTOR

THE U.S. CONGRESS, IN U.S. PUBLIC LAW NO. 96-597, HAS DIRECTED THE DEPARTMENT OF THE INTERIOR TO PROVIDE TECHNICAL ASSISTANCE TO THE TERRITORIES. WE UNDERSTAND, HOWEVER, THAT IN THE CASE OF THE NORTHERN MARIANAS, BOTH FEDERAL AND CNMI OFFICIALS ARE EARMARKING THE TECHNICAL ASSISTANCE ONLY TO THE PUBLIC SECTOR.

WE STRONGLY URGE THE U.S. CONGRESS TO SET ASIDE HALF OF THE TECHNICAL ASSISTANCE TO THE DEVELOPMENT OF THE PRIVATE SECTOR, INCLUDING PRIVATE ENTREPRENEURSHIP AND MANAGEMENT TRAINING OF OWNERS AND EMPLOYEES OF PRIVATE BUSINESSES.

CNMI AUTHORITY OVER MARINE RESOURCES

THE COMMONWEALTH GOVERNMENT AND THE NORTHERN MARIANA ISLANDS COMMISSION ON FEDERAL LAWS HAVE RECOMMENDED CHANGES TO FEDERAL LAW WHICH WOULD PERMIT THE CNMI TO EXERCISE GREATER AUTHORITY AND CONTROL OVER ITS PRIMARY NATURAL RESOURCES -- THE MARINE LIFE AND MINERALS IN THE SEA. WE REQUEST YOU TO CAREFULLY CONSIDER AND ACT UPON THIS SIGNIFICANT MATTER. MOREOVER, WE ENCOURAGE YOU TO SUPPORT FUNDING THROUGH TECHNICAL ASSISTANCE OF AN AERIAL SURVEILLANCE PROJECT TO MONITOR FOREIGN FISHING WITHIN A 200 MILE ZONE AROUND THE CNMI.

WAR CLAIMS

UNDER U.S. P.L. 92-39, THE U.S. GOVERNMENT RECOGNIZES RESPONSIBILITY AND OBLIGATION TO PAY THE TITLE I WAR CLAIMS AS ADJUDICATED BY THE MICRONESIAN CLAIMS COMMISSION: HOWEVER, PAYMENT OF THE \$12.5 MILLION U.S. SHARE IS CONTINGENT ON AN AGREEMENT BY JAPAN TO PAY ITS SHARE OF THE TITLE I CLAIMS. JAPAN ARGUES THAT IT NO LONGER HAS ANY LIABILITY FOR THE MICRONESIAN WAR CLAIMS BECAUSE OF A PRIOR EXECUTIVE AGREEMENT BETWEEN JAPAN AND THE U.S.

THE U.S. CONGRESS SHOULD APPROPRIATE THE MONEY FOR THE PAYMENT OF THE CLAIMS AGAINST THE U.S. AND AUTHORIZE THE NORTHERN MARIANAS TO RECEIVE AID IN KIND FROM JAPAN IN PLACE OF THE WAR CLAIMS PAYMENT.

THIRD COUNTRY ASSISTANCE

ALTHOUGH TECHNICALLY, WE ARE STILL A PART OF THE TRUST TERRITORY OF THE PACIFIC ISLANDS, THERE IS NO CLEAR FEDERAL POLICY ON WHETHER THE NORTHERN MARIANAS CAN RECEIVE "FOREIGN AID" FROM THIRD COUNTRIES SUCH AS JAPAN AND THE REPUBLIC OF CHINA WHICH HAVE EXPRESSED A WILLINGNESS TO

PROVIDE AID IN THE AREA OF ECONOMIC AND SOCIAL DEVELOPMENT OF THE NORTHERN MARIANAS.

THE U.S. CONGRESS SHOULD AUTHORIZE THE NORTHERN MARIANAS, DURING AND AFTER THE TRUSTEESHIP, TO RECEIVE AID FROM ANY THIRD COUNTRY OR INTERNATIONAL AGENCY WISHING TO ASSIST THE NORTHERN MARIANAS. IF SUCH A POLICY CAN BE EFFECTED ADMINISTRATIVELY BY EITHER THE INTERIOR OR STATE DEPARTMENT, THE U.S. CONGRESS SHOULD CAUSE SUCH A POLICY TO BE ISSUED ADMINISTRATIVELY AT THE EARLIEST POSSIBLE OPPORTUNITY.

PRIOR SERVICE BENEFITS PROGRAM

WE SUPPORT THE RECOMMENDATION OF THE HOUSE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS, COMMITTEE REPORT PRINT NO. 6 TO THE COMMITTEE ON THE BUDGET, IN WHICH A \$15 MILLION APPROPRIATION IS REQUESTED TO ESTABLISH A TRUST FUND TO PAY THE PRIOR SERVICE BENEFITS OF TRUST TERRITORY OF THE PACIFIC ISLANDS CITIZENS WHO WORKED FOR THE TTPI GOVERNMENT FOR AT LEAST 5 YEARS PRIOR TO JULY 1, 1968. WE BELIEVE THAT FUNDING FOR THE PRIOR SERVICE IS AN OBLIGATION OF THE U.S. GOVERNMENT.

UNITED STATES CITIZENSHIP

ONCE AGAIN WE WISH TO RENEW OUR REQUEST FOR THE U.S. CONGRESS TO GRANT IMMEDIATE U.S. CITIZENSHIP TO THE RESIDENTS OF THE CNMI. AS YOU KNOW WHEN THE COVENANT WAS RATIFIED BY OUR PEOPLE, IT WAS OUR LEGITIMATE EXPECTATION THAT U.S. CITIZENSHIP WOULD BE EXTENDED TO THE CNMI BY 1981. THIS EVENT IS NOW SEVERAL YEARS OVERDUE.

CONCLUSION

WE HAVE SUBMITTED TO YOUR DISTINGUISHED SUBCOMMITTEE, MR. CHAIRMAN, A LONG LIST OF OUR REQUIREMENTS FOR FISCAL YEAR 1985 WHICH WE HOPE YOU WILL CONSIDER FAVORABLY THIS YEAR. WITHOUT BELABORING THE POINT, THE ABSENCE OF ADEQUATE FUNDING AND ACTION FOR THESE PROJECTS WOULD ONLY CRIPPLE OUR EFFORTS TO UPGRADE THE SOCIAL AND ECONOMIC DEVELOPMENT PROGRAMS REQUISITE TO OUR MEETING OUR FINANCIAL NEEDS AS RESPONSIBLE CITIZENS WITHIN THE AMERICAN POLITICAL FAMILY. THE INSTALLATION OF SOUND INFRASTRUCTURE IS A BASIC REQUIREMENT FOR SUPPORTING PERMANENT ECONOMIC DEVELOPMENT IN A SELF-GOVERNING ENTITY SUCH AS THE COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS. WE ARE OPTIMISTIC THAT YOU WOULD GIVE OUR REQUESTS THE CONSIDERATION THAT THEY SO URGENTLY DESERVE. THANK YOU.

SUMMARY STATEMENT

Lieutenant Governor TENORIO. Thank you, Mr. Chairman. Governor Tenorio regrets not being able to be here to testify before your committee. He has other pressing business to do at home and asked me to extend to the committee on behalf of the people and himself our thanks for all the help that this committee and the Congress of the United States has given us over the past 6 years.

Mr. Chairman, as last year, we came with a numerous listing of requests for funding. We will not bother to describe all the needs that we have at this point, again. We just want to point to the continuation of two important projects for which we would like the U.S. Congress and the committee to help us in obtaining funds, as well as for startup of new projects.

The first area is that of the hospital construction funding in which we are requesting \$10 million this year to complete the hospital construction project as well as to provide for necessary medical equipment and other equipment that will be required for the operation of the hospital once it's completed.

We are also requesting \$6 million for four primary water works projects. That includes projects on Saipan as well as on Rota. As you know, we come here requesting money for water in order to operate our water systems so that the systems could meet the U.S. Public Health Drinking Water Standards as well as operations capability.

These are the two major concerns, Mr. Chairman, that we are asking your committee again to help us find the funds for so we can complete the hospital as well as begin the operating of our major infrastructure. Unless we can do a major improvement of the water system we will not be able to provide for the necessary economic growth that is required in any entity for an economic development program.

Senator JOHNSTON. Thank you, Governor. We are familiar with that problem and we hope you have rains this year as well.

Anyone else?

Lieutenant Governor TENORIO. I would like to ask our representative from the United States, Mr. Tenorio, to address one issue that will take a very brief time.

Lieutenant Governor TENORIO. Thank you, Senator. We are also requesting that \$190,000 be appropriated this year for the Commission on Federal Laws to continue its work. It has been doing a good job for our Commonwealth and we would like to see the Commission continue its work. Thank you.

Senator JOHNSTON. Thank you.

Senator MANGLONA. Mr. Chairman, I appreciate the opportunity to appear before your distinguished committee because time is of the essence. I feel that I would like to be on record of supporting the Governor on his statement and I would like to ask your committee to please include our Senate testimony for the committee record.

FEDERATED STATES OF MICRONESIA

STATEMENT OF BAILEY OLTER, VICE PRESIDENT, FEDERATED STATES OF
MICRONESIA

ACCOMPANIED BY HON. RAYMOND SETIK, SENATOR, CHAIRMAN, WAYS
AND MEANS COMMITTEE

PREPARED STATEMENT

Senator JOHNSTON. Next we are glad to welcome the group from the Federated States of Micronesia [FSM]: Bailey Olter, vice president of the Federated States; Senator Raymond Setik, chairman of the ways and means committee of the FSM.

Gentlemen, welcome back. All your prepared statements will be inserted in the record at this point.

[The statement follows:]

(605)

STATEMENT OF RAYMOND SETIK

MY NAME IS RAYMOND SETIK, CHAIRMAN OF THE COMMITTEE ON WAYS AND MEANS OF THE FEDERATED STATES OF MICRONESIA CONGRESS. I APPRECIATE VERY MUCH THIS OPPORTUNITY TO APPEAR BEFORE THIS COMMITTEE, ON BEHALF OF THE SPEAKER AND THE OTHER MEMBERS OF THE THIRD CONGRESS OF THE FEDERATED STATES OF MICRONESIA, IN SUPPORT OF THE SENTIMENTS AND VIEWS OF THE FSM EXECUTIVE BRANCH ON THE DEPARTMENT OF THE INTERIOR FISCAL YEAR 1985 BUDGET REQUEST FOR THE FEDERATED STATES OF MICRONESIA.

I WISH TO HIGHLIGHT THE CONCERNS OF THE FSM CONGRESS ON THE BUDGET SUBMITTED TO YOU BY THE DEPARTMENT OF THE INTERIOR.

WE CONTINUE TO SUPPORT THE OFTEN-MADE ASSERTION THAT CERTAIN ISSUES MUST BE ADDRESSED SATISFACTORILY BEFORE THE CURRENT STATUS OF TRUSTEESHIP IS CHANGED TO FREE ASSOCIATION. THE FACT THAT THESE ISSUES ARE BEING BROUGHT UP AGAIN REFLECTS OUR VIEW THAT THEY HAVE NOT BEEN ADDRESSED SATISFACTORILY. LET ME SUMMARIZE THEM FOR YOU.

FIRST, IN HEALTH SERVICES, YOU WILL RECALL THIS CONGRESS PROVIDED FUNDS IN FISCAL YEAR 1983 AND 1984 TO HELP FIGHT A CHOLERA OUTBREAK IN TRUK STATE, AND HERE WE MUST REITERATE OUR SINCERE APPRECIATION TO THIS CONGRESS, THE U.S. ADMINISTRATION AND THE WORLD HEALTH ORGANIZATION FOR THEIR ASSISTANCE IN MAKING IT POSSIBLE TO CONTROL THE SPREAD OF THE DISEASE, AS WELL AS IN REDUCING THE NUMBER OF POSSIBLE VICTIMS. THIS RESPONSE TO THE EPIDEMIC IS COMMENDABLE, BUT WE CAN HONESTLY SAY THAT THE EPIDEMIC COULD HAVE BEEN AVERTED OR SOONER PUT UNDER CONTROL HAD OUR PLEA FOR IMPROVED SERVICES IN COMMUNICABLE DISEASE CONTROL BEEN HEEDED AND THE FUNDS APPROPRIATED MADE AVAILABLE ON A TIMELY BASIS. WHILE FUNDS HAVE BEEN EXHAUSTED, OTHER COMMUNICABLE DISEASES ARE FOUND TO BE ON THE INCREASE. TWO OF THESE ARE TUBERCULOSIS AND LEPROSY. WE APPEAL TO THIS CONGRESS TO HELP US CONTINUE THE FIGHT AGAINST THESE EXISTING PROBLEMS AND TO SET DOWN THE FOUNDATIONS FOR A SOUND PREVENTATIVE PROGRAM IN COMMUNICABLE DISEASE CONTROL. WE TAKE THE POSITION THAT WHILE THESE PROBLEMS REMAIN CURRENT, THE PRESENT ADMINISTERING AUTHORITY MUST EXPEND ALL POSSIBLE MEANS TO RESOLVE THEM. ONE OF THESE MEANS COULD HAVE BEEN TO SUPPORT OUR REQUEST FOR ADDITIONAL FUNDING IN THIS AREA; HOWEVER, SINCE THE DEPARTMENT OF THE INTERIOR IS UNABLE TO RECOMMEND FUNDING IN THAT REGARD, WE HAVE NO CHOICE BUT TO APPEAL THIS DECISION. WE HOPE YOU WILL ACT FAVORABLY ON OUR REQUEST.

THE SECOND AREA OF CONCERN IS OVER MATTERS THAT HAVE BECOME KNOWN AS "TRANSITION ISSUES". THESE INCLUDE IDEFINITE LAND USE CLAIMS, WAR CLAIMS, MEDICAL REFERRAL PROGRAM COSTS, ACCUMULATED DEFICITS, COLLEGE OF MICRONESIA, FINANCIAL MANAGEMENT, AND PRIOR SERVICE BENEFITS. WE WOULD LIKE TO SEE THESE ISSUES RESOLVED AS SOON AS POSSIBLE OR TO RECEIVE A COMMITMENT FROM THIS GOVERNMENT THAT THESE ISSUES WILL BE RESOLVED SATISFACTORILY. WE ARE MAKING PROGRESS ON THE COLLEGE OF MICRONESIA AND FINANCIAL MANAGEMENT ISSUES, BUT MORE NEEDS TO BE DONE. IN THAT CONNECTION, LET ME STATE THAT THE AMOUNT PROPOSED FOR THE CONSTRUCTION OF THE COMMUNITY COLLEGE OF MICRONESIA CAMPUS IN PONAPE IS NOT SUFFICIENT, BASED ON THE LATEST ESTIMATE. THE SAME IS TRUE WITH THE ON-GOING INSTALLATION OF AN AUTOMATED FINANCIAL MANAGEMENT SYSTEM. WE LOOK TO THIS COMMITTEE'S SUPPORT OF OUR REQUEST FOR ADDITIONAL FUNDING. ON PRIOR SERVICE BENEFITS, WE ARE ENCOURAGED BY REPORTS OF THE COMMITTEE ON INTERIOR AND INSULAR AFFAIRS AND ITS SUBCOMMITTEE ON PUBLIC LANDS AND NATIONAL PARKS, WHICH SUPPORT OUR POSITION THAT THE ADMINISTERING AUTHORITY SHOULD PROVIDE FOR THIS PROGRAM AS IT WAS A CREATION OF THE UNITED STATES GOVERNMENT. WE ALSO WISH TO EXPRESS OUR SUPPORT FOR THE PROPOSAL TO SEEK TIMELY APPROPRIATION TO FINANCE A TRUST FUND, WHICH WOULD ENABLE SUFFICIENT FUNDING OF FUTURE CLAIMS FOR PRIOR SERVICE BENEFITS. EARLY RESOLUTION OF THESE TRANSITION ISSUES WOULD ENSURE A SMOOTH TRANSITION INTO THE FREE ASSOCIATION PERIOD.

A THIRD AREA OF CONCERN TO THE FSM CONGRESS HAS TO DO WITH THE PROVISION OF TECHNICAL ASSISTANCE AS NECESSITATED BY THE DEVOLUTION OF FUNCTIONS AND RESPONSIBILITIES FROM THE ADMINISTERING AUTHORITY TO THE NEW GOVERNMENT OF THE FEDERATED STATES OF MICRONESIA. IN THIS REGARD, THE FSM CONGRESS FULLY SUPPORTS THE GOAL OF BOTH THE U.S. ADMINISTRATION AND OUR GOVERNMENT TO TERMINATE THE TRUSTEESHIP SYSTEM AND REPLACE IT WITH FREE ASSOCIATION. THE UNANIMOUS APPROVAL OF THE COMPACT OF FREE ASSOCIATION BY THE FSM CONGRESS SPEAKS TO THIS FACT. SOME EXAMPLES OF THE AREAS IN WHICH WE NEED TECHNICAL ASSISTANCE ARE: FINANCIAL MANAGEMENT AND REVENUE COLLECTION ADMINISTRATION. WE ARE GRATEFUL TO THE OFFICE OF TERRITORIAL AND INTERNATIONAL AFFAIRS OF THE DEPARTMENT OF THE INTERIOR FOR ITS SUPPORT UNDER TECHNICAL ASSISTANCE, BUT WOULD HOPE THAT THIS CONGRESS WILL SEE TO IT THAT OTHER DESERVING PROGRAMS RECEIVE THIS TYPE OF ASSISTANCE.

FINALLY, IN THE AREA OF CAPITAL IMPROVEMENTS, THE FSM CONGRESS SHARES THE VIEW THAT BASIC INFRASTRUCTURE NEEDS TO BE IN PLACE THROUGHOUT THE FSM; NOT ONLY IN THE STATE CENTERS BUT ALSO ON THE OUTER ISLANDS WHERE MUCH OF THE POPULATION RESIDE. THE CONGRESS THEREFORE SUPPORTS THE ADDITIONAL BUDGET REQUEST BY OUR EXECUTIVE BRANCH FOR ADDITIONAL CAPITAL IMPROVEMENT PROJECTS INCLUDING THOSE PROPOSED FOR CONSTRUCTION AND IMPROVEMENT OF AIRSTRIPS ON THE OUTER ISLANDS.

AGAIN, I THANK YOU FOR THIS OPPORTUNITY TO TESTIFY AND I AM NOW READY TO ANSWER ANY QUESTIONS YOU MAY HAVE.

STATEMENT OF BAILEY OLTOR

MR. CHAIRMAN, I AM BAILEY OLTOR, VICE PRESIDENT OF THE FEDERATED STATES OF MICRONESIA. WITH ME ARE SENATOR RAYMOND SETIK, CHAIRMAN OF THE WAYS AND MEANS COMMITTEE OF THE CONGRESS OF THE FEDERATED STATES OF MICRONESIA, HIS COUNSEL MR. DELSON EHME, AND OUR BUDGET OFFICER, MR. DEL PANGELINAN. ALSO IN THE AUDIENCE ARE SENATOR PETER CHRISTIAN, CHAIRMAN OF THE HEALTH, EDUCATION AND SOCIAL AFFAIRS COMMITTEE OF THE FSM CONGRESS AND SENATOR KASIANO JOSEPH, CHAIRMAN OF THE FINANCE COMMITTEE, PONAPE STATE LEGISLATURE.

MR. CHAIRMAN, ON BEHALF OF THE PRESIDENT AND THE PEOPLE OF THE FEDERATED STATES OF MICRONESIA, I WOULD LIKE TO EXPRESS OUR DEEPEST GRATITUDE TO YOU AND YOUR COLLAEGUES FOR YOUR SUPPORT OVER THESE PAST YEARS. THROUGH YOUR UNDERSTANDING AND SUPPORT, WE ARE ABLE TO CONTINUE TO BUILD SOME OF THE NEEDED INFRASTRUCTURE TO SUPPORT THE DEVELOPMENT OF OUR ISLAND COUNTRY. DESPITE THESE ACCOMPLISHMENTS, WE FIND IT NECESSARY TO COME TO YOU AGAIN THIS YEAR TO SEEK ADDITIONAL FUNDING FOR A NUMBER OF PROGRAMS AND PROJECTS WHICH ARE NOT INCLUDED IN THE DEPARTMENT OF INTERIOR FISCAL YEAR 1985 BUDGET REQUEST FOR THE FEDERATED STATES OF MICRONESIA.

IN THE AREA OF OPERATIONS, WE REQUEST \$3.336 MILLION IN ADDITIONAL FUNDING. THIS IS NEEDED TO:

(1) RESTORE \$2 MILLION ELIMINATED FROM THE DEPARTMENT OF INTERIOR BUDGET. THESE FUNDS ARE NEEDED TO CONTINUE THE CHOLERA ERADICATION PROGRAM IN TRUK AND TO CONDUCT A NATION-WIDE SURVEY PROGRAM ON TUBERCULOSIS AND LEPROSY. NEXT

TO CHOLERA, LEPROSY AND TUBERCULOSIS ARE TWO OF THE MOST CRITICAL HEALTH PROBLEMS FACING THE FEDERATED STATES.

(2) PROVIDE \$336,000 IN SUPPLEMENTAL FUNDING FOR THE FINANCIAL MANAGEMENT SYSTEM. CURRENT REVIEW OF THE PROJECT INDICATES THAT ADDITIONAL FUNDING WILL BE REQUIRED FOR TRAINING, CONVERSION AND PROJECTED OVERRUNS WHICH WILL RESULT FROM AN INADEQUATE INITIAL BUDGET.

(3) PROVIDE \$1 MILLION FOR LOCAL TELEPHONE SYSTEMS UPGRADE.

IN THE AREA OF CAPITAL IMPROVEMENTS, WE ARE SEEKING \$17.340 MILLION IN NEW PROJECTS FOR THE FOUR FSM STATES. THESE PROJECTS REFLECT THE FOUR STATES' PRIORITIES.

TRANSITION ISSUES HAVE BEEN DISCUSSED IN THESE HEARINGS REPEATEDLY. LONG-STANDING ISSUES SUCH AS WAR CLAIMS, PRIOR SERVICE BENEFITS FOR SOCIAL SECURITY BENEFICIARIES, INDEFINITE LAND USE CLAIMS, DEFICITS PRIOR TO FISCAL YEAR 1982, MEDICAL REFERRAL UNPAID ACCOUNTS, AND COLLEGE OF MICRONESIA, ARE AMONG THESE ISSUES THAT NEED TO BE RESOLVED. WE LOOK FORWARD TO YOUR CONTINUING SUPPORT IN THE EARLY RESOLUTION OF THESE ISSUES.

FINALLY, WE ARE PLEASED TO NOTE THAT FUNDING FOR THE FSM CAPITAL IS INCLUDED IN THE ADMINISTRATION'S REQUEST. WE WOULD LIKE TO POINT OUT HOWEVER, THAT PRELIMINARY DESIGN WORK FOR BOTH THE CAPITAL AND THE COLLEGE OF MICRONESIA INDICATE THE REQUEST BY THE ADMINISTRATION WILL NOT BE SUFFICIENT. THE MOST RECENT COST ESTIMATE FOR THE PLANNED FACILITIES FOR THE CAPITOL IS \$23 MILLION. THE COLLEGE OF MICRONESIA IS ESTIMATED AT \$12 MILLION. FINAL DESIGN WORK IS EXPECTED IN THE FALL OF THIS YEAR. IT IS IMPORTANT THAT WE MOVE FORWARD IN THE CONSTRUCTION OF THESE FACILITIES IMMEDIATELY.

BEFORE CONCLUDING MY STATEMENT, I WOULD LIKE TO BRIEFLY TOUCH UPON THE COMPACT OF FREE ASSOCIATION. BOTH THE UNITED STATES AND THE FEDERATED STATES OF MICRONESIA HAVE SPENT OVER A DECADE TO NEGOTIATE THE POLITICAL

RELATIONSHIP THAT WILL BE MORE BENEFICIAL TO OUR TWO COUNTRIES. THE RESULT OF THOSE YEARS OF NEGOTIATION HAVE BEEN PUT BEFORE MY PEOPLE LAST SUMMER IN A PLEBISCITE AND THE RESULT WAS AFFIRMATIVE. WE HAVE BEEN TOLD THAT THE COMPACT HAS BEEN TRANSMITTED TO THIS CONGRESS BY THE U.S. PRESIDENT AND IS NOW AWAITING CONGRESSIONAL REVIEW AND APPROVAL. WE HOPE THAT THIS CONGRESS ACTS EXPEDITIOUSLY AND FAVORABLY ON THE COMPACT.

MR. CHAIRMAN, I SUBMIT TO YOU A COPY OF OUR BUDGET REQUEST WHICH DETAILS THE PROGRAMS AND PROJECTS I HAVE JUST OUTLINED. I WOULD REQUEST THAT THE BUDGET BE INCLUDED AS PART OF THE RECORD OF THIS HEARING.

THIS CONCLUDES MY STATEMENT AND I AM NOW READY TO ANSWER ANY QUESTIONS YOU MAY HAVE. THANK YOU.

SUMMARY STATEMENT OF VICE PRESIDENT BAILEY OLSTER

Vice President OLTER. Thank you. I would like to introduce my colleague, Senator Raymond Setik, chairman of the committee on ways and means. We have other colleagues in the audience here.

Mr. Chairman, on behalf of the president and the people of the Federated States I would like to express our gratitude to you and your colleagues for your support over the past years. Through your understanding and support, we are able to continue to build some of the needed infrastructure to support the development of our island country.

Despite these accomplishments, we find it necessary to come to you again this year to seek additional funding for a number of programs and projects which are not included in the Department of the Interior fiscal year 1985 budget request for the Federated States of Micronesia.

ADDITIONAL FUNDING REQUESTS

In the area of operations, we request \$3.336 million in additional funding. This additional funding will cover \$2 million for the Cholera Eradication Program and also a more complete survey program on tuberculosis and leprosy.

We would also like \$3.336 million provided in supplemental funding for the financial management system which was funded in the supplement of 1982; and we ask \$1 million of that to improve our local telephone systems.

In the area of capital improvements, we are seeking \$17.340 million in new projects for the four states. These projects reflect the four states' priorities.

Transition issues need to be considered before the compact comes into being. We are asking that such issues as the war claims, prior service benefits, indefinite land use claims, deficits prior to fiscal year 1982, medical referrals, unpaid accounts, and our college are among these issues to be resolved.

We look forward to your continuing support in the early resolution of these issues.

Finally, we are pleased to note that funding for the FSM capital is included in the administration's request. We would like to point out, however, that preliminary design work for both the capitol and College of Micronesia indicated in the request by the administration will not be sufficient.

The most recent cost estimate for the planned facilities for the capitol is estimated at \$23 million and the college at \$12 million. Final design work is expected, for these two projects, to be completed by the fall of this year.

COMPACT OF FREE ASSOCIATION

Before concluding my statement, I would like to briefly touch upon the compact of free association. Both the United States and the Federated States of Micronesia have spent over a decade to negotiate the po-

litical relationship that will be more beneficial to our two countries. The result of these years of negotiation have been put before our people last summer in a plebiscite and the result was affirmative.

We have been told that the compact has been transmitted to this Congress by the administration and is now awaiting congressional review and approval. We hope that this Congress acts expeditiously and favorably on the compact.

Mr. Chairman, I submit to you a copy of our budget request which details the programs and projects I have just outlined. I would request that the budget be included as part of the record of this hearing.

Senator JOHNSTON. Thank you very much, Mr. Vice President. We will put the written statements in the record.

Do you wish to add something?

SUMMARY STATEMENT OF SENATOR SETIK

Senator SETIK. Thank you very much. I appreciate this opportunity also to appear before this committee on behalf of the speaker and the other members of the Third Congress of Federated States in support of the sentiments and views of the FSM executive branch on the Department of the Interior's fiscal year 1985 budget request for the Federated States of Micronesia.

I wish to highlight the concerns of the FSM Congress on the budget submitted to you by the Department of the Interior. We continue to support the often-made assertion that certain issues must be addressed satisfactorily before the current status of trusteeship is changed to free association.

The fact that these issues are being brought up again reflects our view that they have not been addressed satisfactorily. Let me briefly summarize them for you.

First, in health services you will recall this Congress provided funds in fiscal years 1983 and 1984 to help fight a cholera outbreak in Truk state; and here we must reiterate our sincere appreciation to this Congress, the U.S. administration and the World Health Organization for their assistance in making it possible to control the spread of the disease as well as in reducing the number of possible victims.

This response to the epidemic is commendable; but we can honestly say that the epidemic could have been averted or sooner put under control had our plea for improved services in communicable disease control been heeded and the funds appropriated, made available on a timely basis. While funds have been nearly exhausted, other communicable diseases are found to be on the increase.

Two of these are tuberculosis and leprosy. We appeal to this Congress to help us continue the fight against these existing problems and to set down the foundations for a sound preventive program in communicable disease control.

We take the position that while these problems remain current the present administering authority must expend all possible means to resolve them. One of these means could have been to support our request for additional funding in this area.

However, since the Department of the Interior is unable to recommend funding in that regard, we have no choice but to appeal before your committee. We hope you will act favorably on our request.

The second concern is over matters that have been known as transition issues. These include indefinite land use claims, war claims, medical referral program costs, accumulated deficits, College of Micronesia, financial management, and prior service benefits.

We would like to see these issues resolved as soon as possible in order to receive a commitment from this government that these issues will be resolved satisfactorily. We are making progress on the College of Micronesia and financial management issues, but more needs to be done.

In that connection, let me state that the amount proposed for the construction of the Community College of Micronesia campus in Ponape is not sufficient based on the latest estimate. The same is true with the ongoing installation of an automated financial management system.

We look to this committee's support of our request for additional funding. On prior service benefits, we are encouraged by reports of the Committee on Interior and Insular affairs and its Subcommittee on Public Lands and National Parks which support our position that the administering authority should provide for this program as it was a creation of the U.S. Government.

We also wish to express our support for the proposal to seek timely appropriation—

Senator JOHNSTON. Excuse me. We are simply running out of time. We have put the written statement in the record.

I hate to cut you off, but we simply don't have the time.

Senator SETIK. OK. Thank you very much.

Senator JOHNSTON. Thank you very much.

REPUBLIC OF THE MARSHALL ISLANDS

STATEMENT OF OSCAR deBRUM, CHIEF SECRETARY, REPUBLIC OF THE
MARSHALL ISLANDS

ACCOMPANIED BY:

HON. HENCHI BALOS, SENATOR, CHAIRMAN OF THE APPROPRIATIONS
COMMITTEE

ALAN E. FOWLER, SECRETARY OF FINANCE

JAMES LEY, PROGRAMS AND BUDGET OFFICER

CARL INGRAM, SPECIAL CONSULTANT TO THE PRESIDENT

PREPARED STATEMENT

Senator JOHNSTON. Next we have the Republic of the Marshall Islands with Oscar deBrum, chief secretary; with Henchi Balos, senator and chairman of the appropriations committee; with Alan E. Fowler, secretary of finance; James Ley, programs and budget officer; and Carl Ingram, special consultant to the president.

Gentlemen, welcome to the committee. We will insert the statements in the record at this point.

[The statement follows:]

STATEMENT OF OSCAR DEBRUM

Mr. Chairman and members of the Committee. My name is Oscar de Brum, and I am the Chief Secretary of the Republic of the Marshall Islands. On behalf of President Kabua and the people of the Republic of the Marshall Islands, I wish to thank you for this opportunity to appear before you in respect to the FY 1985 United States budget as it relates to the Republic of the Marshall Islands.

Fiscal Responsibility

Last year at these hearings, we informed the Committee that the Government of the Republic of the Marshall Islands was confronted with a serious financial crisis. Today, we are happy to tell you that through actions we have taken to meet this crisis, our fiscal situation has greatly improved. The austerity measures implemented last year have begun to pay off in the following areas:

- Exclusive of medical referral liabilities, in FY 1983 we reduced our prior year deficit from \$3.1 million to \$1.1 million, and we hope to reduce it even further in FY 1984. Our estimated medical referral liabilities through FY 1984 are between \$4.5 million and \$5.5 million.
- We have refinanced loan payments due in 1983, and at this time we are current on all loan accounts. After the appropriation hearings last year, we were promised, and did request, assistance from former Assistant Secretary Pedro Sanjuan in refinancing our long term debt. Such assistance was not, however, forthcoming.
- Locally generated revenues will increase through tax legislation which has more than doubled the import tax rate on all commodities. In respect to local revenues, we note also that on 18 April 1983 President Kabua wrote to the

Secretary of the Department of the Interior requesting an amendment to Secretarial Order 3039 to increase the income tax from 3% to 5% for United States contractor personnel working on the Kwajalein Missile Range. The income tax for others working in the Marshall Islands is substantially higher. Despite repeated inquiries, we have received no official response from the Department of the Interior. However, informally, we have been told that there are no impediments to the proposed tax increase. The delay in issuance of the requested Secretarial Order has cost our government approximately \$750,000 in additional revenues during FY 1983 and will cost an additional \$950,000 in FY 1984, if no immediate response is forthcoming.

Financial Management/Efficiency of Operation

We are also pleased to inform you of steps we have taken to improve our financial management capabilities and to achieve greater efficiency.

Our new computerized financial management system is operating successfully, providing the government with greatly increased financial control through more timely and useful accounting reports. We sincerely appreciate the assistance of the Congress and the Department of the Interior in the acquisition and installation of this new system. Further, an accounting advisor has been hired through a technical assistance grant from the Department of the Interior and is training local staff and helping to improve our accounting procedures. An Auditor General has also been appointed and has completed a number of important audits in the area of internal controls. We feel confident that the High Commissioner will testify that there has been significant improvement over the past year in our financial management and fiscal control.

The Government of the Republic of the Marshall Islands has also taken action to increase the efficiency of government operations and to reduce public sector employment by spinning off government activities to the private sector. This has been successfully done with the Majuro power plant. The impressive results of this approach will lead to further spin offs to the private sector.

Mr. Chairman, we are proud of these accomplishments and believe that they are evidence of our readiness to enter into the new political status of free association with the United States.

Economic Development

We also wish to inform you of several encouraging events in the area of economic development which have occurred during the past year.

The Airline of the Marshall Islands is now self-sufficient and profitable. In FY 1983, for the first time, our government made no operational subsidies to the airline. A new hotel has been built in Majuro, and another is scheduled to be completed in January of 1985. An overseas retail chain has begun construction of a new shopping center. An agreement to construct a fishing base has been concluded with the Government of Japan. A button factory, a fishing co-op, a new hospital, and a 30 mile power line between the Majuro airport and Laura are being constructed. On Ebeye, development projects include the construction of a container yard and warehouse facility, upgrade of the power plant, rehabilitation of the sewer system, renovation of the hospital, and upgrade of the fresh water delivery system.

Together, these events are contributing to the development of a more vigorous and self-sufficient economy in the Marshall Islands. We note that the availability of reliable electrical power has made many of these projects possible. Electrical power will continue to be the single most important factor in the future economic development of the Republic. The average daily

load on the Majuro power plant has increased by 34% during 1983 and is projected to grow by similar or greater amounts in 1984 and 1985.

Transition Budget Request

Mr. Chairman, the Government of the Republic of the Marshall Islands knows that it must rely first upon its own resources and capabilities to meet its needs. However, we concur with the House Committee on Interior and Insular Affairs when they say that "there is still some unfinished business" which must be addressed before the Trusteeship is terminated. The budget requests which we present today will deal with these matters and will ensure that United States commitments are met. We wish to make it clear that our request for funding of these transition items is not presented as a substitute for the Compact, but as a supplement to it. Our government has as its goal the implementation of the Compact by 1 October 1984.

As transitional items, we request that the amount of \$22.6 million be appropriated to the Republic of the Marshall Islands in the following categories (in priority order):

1. liquidation of medical referral liabilities, \$4.5 million;
 2. construction of water supply projects for Majuro and Ebeve, \$6.0 million;
 3. construction of the College of Micronesia Nursing School, \$2.5 million;
 4. resettlement of the people of Rongelap Atoll, \$3.0 million;
 5. construction of a new capitol, \$4.4 million;
 6. health services improvements, including the establishment of an outer island medical dispensary system, \$1.2 million;
- and

7. outer island load centers, \$1.0 million.

In addition, our government supports increased appropriations for the Special Operations and Maintenance program, for technical assistance, for prior service benefits and for war claims.

Justification of Transitional Request

Medical Referral Liabilities, Health Services Program. The overseas medical referral program continues to strain our resources, with over \$4.5 million owing to overseas health care providers, including \$3.8 Million to Tripler Army Medical Center. We would like to register our appreciation for the recommendation by the House Committee on Interior and Insular Affairs that \$10 million be provided to liquidate medical referral liabilities.

As the United States Government has discovered in operating its own Medicare/Medicaid programs, it is difficult to control health care costs. The problem is intensified in a country such as the Marshall Islands where basic health care facilities, equipment, and skilled personnel are non-existent or seriously lacking. We are forced to rely on expensive overseas health care facilities for tertiary care. The consequences of such deficiencies in our own system can be highlighted in a single statistic. In 1981, the infant mortality rate in the United States was 11.8 deaths per 1000 live births. In the Marshall Islands, the comparable rate was 33.0 deaths, or almost three times as high as the United States rate.

Under the Trusteeship Agreement, the United States is committed to provide for the health of the inhabitants of the Trust Territory. We believe that financial assistance to liquidate medical referral liabilities is consistent with that commitment and with the humanitarian principles which the United States espouses. Without such assistance, the Republic of the Marshall Islands will not be able to discharge its medical referral liabilities without cutting back upon essential services.

The best way to control medical referral costs is to improve the delivery of health care services within the Marshall Islands, and thereby reduce the need to send patients overseas for treatment. The completion of the new Majuro hospital in late 1984 will represent a significant step in this direction. However, much more needs to be done, especially with regard to technical assistance and the initiation of a primary health care program in the outer islands. We are grateful that the House Committee on Interior and Insular Affairs has recommended that health care funding be increased by \$2.0 million and technical assistance by \$5.0 million. Together, these funds would enable us to adequately staff, operate and maintain our new facility and reduce the incidence of referrals to overseas hospitals. A capability statement accompanies this budget request explaining how additional funding would accomplish these objectives.

Water Supply Projects. We are also seeking funding for urgent water supply projects on Majuro and Ebeye. Existing water shortages present not only a significant public health problem, but also hinder economic development efforts. An amount of \$6.0 million is requested to construct waste heat desalinization plants for Ebeye and Majuro, or on Majuro to construct a water line to Laura at the other end of the atoll, whichever is the most cost effective solution. In this connection, we note reports have reached Congress to the effect that during a period of drought, the Government of the Republic of the Marshall Islands sold 6 million gallons of water to the Republic of Nauru at a rate of one dollar per gallon. As is explained in the attached letter, that unfortunate report is unfounded.

College Micronesia Nursing School. The presidents of the Republic of Palau, the Federated States of Micronesia and the Republic of the Marshall Islands endorsed the construction of a nursing school in the Marshall Islands in their 5 October 1983 Saipan Accords.

The proposed nursing school would be an integrated medical learning facility to fulfill the demand for qualified nursing personnel for the Republic of Palau, the Federated States of Micronesia, and the Republic of the Marshall Islands. The school would have facilities to train approximately 60 students, with living accommodations for 50 students and for 10 faculty and staff. The site designated, and already leased for the facility, is directly adjacent to the new Majuro Hospital, which, with 80 beds and nearly 60,000 square feet of space, will be the most modern and best equipped hospital in the region. The school would operate in close connection with the hospital, utilizing its facilities, equipment and staff for practical training programs. The new facilities would be of institution quality construction with special emphasis on minimizing the harsh and corrosive effects of the tropical environment.

Rongelap Resettlement. The people of the Marshall Islands who were displaced by the United States nuclear testing program have always looked to the Congress for leadership in providing for temporary shelter, means of survival, and for the eventual resettlement to their homes. The Congress has been persistent in its support of programs which promote the welfare and the resettlement of our people to their home islands.

The 1985 budget recommendations of the House Committee on Interior and Insular Affairs are further evidence of the resolve and concern of Congress for the plight of those affected by the nuclear testing program. Funding is recommended to begin the clean-up of Bikini, for housing on Enejibi, for an agricultural program on Enewetak, and for health care for all those affected by the nuclear testing program. We wish to express our deep gratitude for these actions. At the same time, we must remind the Congress that the people of Rongelap Atoll deserve the same degree of concern as the people of the other affected atolls. An initial appropriation in the amount of \$3.0 million is requested

to resettle the Rongelapese from their contaminated islands to Ebadon Island, Kwajalein Atoll.

Capitol. In its FY 1983 and FY 1984 budget submissions, the Department of the Interior requested funding for the construction of Micronesian capitols. The Congress decided to defer funding for the capitols in each of these years, noting that higher priorities existed.

Mr. Chairman, we concur that there have been, and still are, many other construction projects which command a high priority. But time is running short for the trusteeship and we believe that it is now proper for the United States to honor the commitment it made in Secretarial Order 2918 on 24 March 1976, to construct the capitols. The design of the capitol buildings for the Marshall Islands is complete, and it is estimated that the construction cost will be \$7.0 million. The Department of the Interior has requested \$2.6 million in its FY 1985 budget. A supplemental request of \$4.4 million is needed to make up this difference.

Outer Island Load Centers. It is proposed that a project be designed and constructed to facilitate pick up and delivery of copra and materials necessary for the economic development of the outer islands. This basic design would be a simple concrete loading ramp to allow a landing craft type ship to pull up easily to the beach of the various designated atolls. It is suggested that the ramps be constructed on 23 to 26 different islands.

Special Operations and Maintenance. There are a number of issues concerning the Special Operations and Maintenance Program which we would like to raise. First, we note that the Department of the Interior is requesting \$3.0 million for the FY 1985 Special Operations and Maintenance Program, a decrease of \$4.0 million below the FY 1984 appropriation. The House Committee on Interior and Insular Affairs, on the other hand, has recommended an appropriation of \$8.0 million, a level which we endorse.

The Government of the Republic of the Marshall Islands, under guidelines developed by the United States Congress and the High Commissioner, is implementing a program which will greatly enhance our maintenance capabilities. We have contracted to have 11 maintenance experts conduct a nation-wide capital stock inventory, develop maintenance procedures, and train local staff in Majuro and Ebeye in all aspects of a maintenance program. Our goal is to implement a plan of regularly scheduled, preventive maintenance for all assets and infrastructure. However, with the funding level requested by the Department of the Interior for FY 1985, it is doubtful that we would be able to implement this plan, or continue the training program.

The Government of the Republic of the Marshall Islands has unsuccessfully requested that it be allowed to utilize Special Operations and Maintenance funds to drydock its fleet of field trip ships. As a maritime nation, with 26 municipalities separated from one another by the ocean, these ships are our lifeline to the outer island communities. We request that the United States reconsider its prohibition of the use of Special Operations and Maintenance funds for drydocking.

Technical Assistance. Mr. Chairman, we believe, that technical assistance is the cornerstone of a successful transition from the trusteeship to free association. We have developed a comprehensive technical assistance program for FY 1984 and FY 1985 which we would like to submit into the record. Our program addresses important needs in the areas of health services, financial administration, economic development, planning, public safety, and maritime administration. It is our hope that the Department of the Interior will formally respond to our program. Some of these projects are worthy of note.

Our government has been justifiably criticized in the past for its failure to collect monies owing to it for electricity, communications, and health services for which it charges. Our

technical assistance program includes a project to establish a consolidated accounts receivable/billing/collection system, integrated with our new computerized financial management system. If this project is approved by OTIA, we are confident that our collection performance will improve dramatically.

Our technical assistance program includes important projects to assist us to better manage the medical referral program and to ensure that the new Majuro hospital facility and equipment are properly staffed and operated. At present, there is no accredited or certified pharmacist, nutritionist, laboratory technologist, psychiatric nurse, hospital administrator, medical record technician, or medical procurement and supply officer. The sum of at least \$250,000 is needed to remedy these deficiencies by contracting with an experienced medical service consulting firm to provide training in the areas listed above.

P.L.96-205, The Burton Health Care Bill

Congress has appropriated \$4.0 million to implement PL 96-205, the Burton Health Care Bill, to fund a health care program for Marshallese affected by the United States nuclear testing program. We note that these funds could, if properly utilized, improve locally delivered health care services and reduce the need for overseas referrals in respect to the United States nuclear testing program.

Mr. Chairman, we seek your support of the principle that health care services funded through the Burton Health Care Act should be made available to all Marshallese exposed to radiation by the nuclear testing program, and that this program should not be administered independently of the health care delivery system of the Republic of the Marshall Islands. We strongly believe that the imposition of a separate health care system, developed and administered by an outside entity, which will benefit only a

small group of our citizens, will not serve the interests of our people. With your permission, we will submit a more detailed position paper into the record at a later date.

We share the concern of Congress for the health of our citizens affected by the United States nuclear testing program and we believe that an effective health care program can be implemented which is acceptable to both governments. We will approach the task of developing this program in a spirit of compromise and cooperation. We ask the United States to do the same.

Conclusion

Mr. Chairman, the Government of the Republic of the Marshall Islands is eager to implement the Compact of Free Association. We would like to see a smooth transition from trusteeship to free association. We ask for your support of our funding requests to accomplish this transition, and we ask for your support for expeditious approval of the Compact of Free Association.

Kom kanuij in emol.

STATEMENT OF HENCHI BALOS

We are grateful to have the opportunity to submit this statement to you today on behalf of the people of Bikini. Our delegation consists of Magistrate Tomaki Juda, who has been elected as first mayor of Kili/Bikini/Ejit local government, Scribe Nathan Note, Treasurer Johnny Johnson and his assistant, Mr. Kethaesar Jibas, and our liaison officer, Mr. Ralph Waltz. Assisting us is our legal counsel, Mr. Jonathan Weisgall. We bring you greetings on behalf of our people.

Our detailed statement will be presented to you by our legal counsel, but I wish to take this opportunity to express our thanks and sincere appreciation to the members and the staff of your subcommittee for their support and understanding in finding solutions to our problems. There are no words that

can express our appreciation to you for your concerns and support to our people during the past years. Our people are grateful and happy for your support, and we hope you will do all you can to help us to return to our homeland.

In the meantime, we want to be relocated to another place besides Kili Island until it is safe to return to Bikini. We have gone through severe hardships and sufferings on Kili Island during the past thirty-six years, not to mention hardships and sufferings we went through on Rongerik Island between 1946 and 1948. Those conditions were even worse. We were told by the U.S. that our time away from Bikini was only temporary, that the U.S. would take care of us and bring us back to our homeland after the testing. Mr. Chairman, nearly forty years of waiting temporarily on Kili to return to our homeland must come to an end. Please help our people to get Bikini Atoll cleaned up and help us find a better and suitable temporary relocation site.

One last point as I conclude my statement. Our people appreciate and are thankful to you and your colleagues for providing us with ex gratia compensation from our resettlement funding. This compensation runs out in June. We humbly ask you, Mr. Chairman, to continue such financial assistance for our people.

Thank you, Mr. Chairman.

STATEMENT OF ATAJI L. BALOS

CHAIRMAN McCLURE, MEMBERS OF THE COMMITTEE, MEMBERS OF THE GENERAL PUBLIC. FIRST, PLEASE ALLOW ME TO EXPRESS MY SINCERE THANKS TO YOU, MR. CHAIRMAN, AND TO THE COMMITTEE FOR ALLOWING ME TO SUBMIT THIS TESTIMONY TO YOU TODAY. I DO SO AS A MEMBER OF THE MARSHALL ISLANDS NITIJELA FROM KWAJALEIN ATOLL AND IN MY CAPACITY AS CHAIRMAN OF THE BOARD OF DIRECTORS OF THE KWAJALEIN ATOLL CORPORATION. KAC IS THE BODY WHICH REPRESENTS THE GREAT MAJORITY OF LANDOWNERS OF KWAJALEIN ATOLL IN LEASING THE LANDS OF KWAJALEIN TO THE UNITED STATES FOR MILITARY USE.

AS THE LANDOWNERS OF KWAJALEIN, WE ARE THE PEOPLE MOST DIRECTLY AFFECTED BY THE PROJECTS OF THE KWAJALEIN ATOLL DEVELOPMENT AUTHORITY, AS OUTLINE BY CHAIRMAN KABUA. WE WISH TO TAKE THIS OPPORTUNITY, ON BEHALF OF THE LANDOWNERS, THAT IS, THE INDIGENOUS PEOPLE OF KWAJALEIN, TO ENDORSE THE TESTIMONY OF SENATOR IMADA KABUA WITH REGARD TO DEVELOPMENT AUTHORITY FUNDING. KADA HAS OUR SUPPORT AND COOPERATION AND IT IS OUR FIRM BELIEF THAT THE BENEFITS DERIVED FROM THE EFFORTS OF THE DEVELOPMENT AUTHORITY AND ITS' STRONG COMMITMENT TO IMPROVING THE QUALITY OF LIFE FOR THE PEOPLE OF KWAJALEIN WILL BE SUBSTANTIAL.

ONE OF THE BENEFITS OF THE CAUSEWAY CONSTRUCTION WILL BE THE OPENING UP OF ADJOINING ISLANDS TO EBEBE FOR AGRICULTURAL PRODUCTION. TOWARD THAT END KAC HAS ALREADY TAKEN STEPS TO FUND A FEASIBILITY STUDY FOR EXTENSIVE PORK AND POULTRY PRODUCTION. WE HOPE TO ULTIMATELY FIND THE SUPPORT OF THE UNITED STATES GOVERNMENT AND CONGRESS FOR OUR AGRICULTURAL INITIATIVE. THE BASIC OUTLINE OF THIS PROGRAM WILL BE FURNISHED TO THE COMMITTEE LATER THIS WEEK.

THERE IS ANOTHER MATTER OF EVEN MORE FUNDAMENTAL CONCERN ABOUT WHICH I WISH TO TALK VERY BRIEFLY. THAT IS THE MATTER OF FUTURE POLITICAL STATUS FOR THE MARSHALL ISLANDS. WHILE I REALIZE THIS IS NOT DIRECTLY WITHIN THE JURISDICTION OF THIS COMMITTEE, NEVERTHELESS, YOU, MR. CHAIRMAN, ARE A MEMBER OF CONGRESS OF LONG INVOLVEMENT IN THE AFFAIRS OF THE TRUST TERRITORY AND I KNOW THAT YOU ARE CONCERNED AS ONE OF THE LEADERS OF THE SENATE WITH RESPECT TO THE FUTURE STATUS QUESTION.

WHILE HEARINGS ARE ABOUT TO BE CONDUCTED WITH REGARD TO THE COMPACT OF FREE ASSOCIATION, WHICH HAS BEEN NEGOTIATED OVER A PERIOD OF MANY YEARS AND WHICH WAS NARROWLY APPROVED IN A PLEBISCITE IN THE MARSHALL ISLANDS, MANY OF THE LEADERSHIP OF THE MARSHALLS NOW BELIEVE THAT IT IS TIME TO STEER A DIFFERENT COURSE.

THE COMPACT WAS DEFEATED BY A 75% MAJORITY AT KWAJALEIN AND WAS ALSO DEFEATED IN OTHER PARTS OF THE MARSHALL ISLANDS WHICH HAVE BEEN DIRECTLY AFFECTED BY U.S. MILITARY ACTIVITIES, SUCH AS BIKINI AND RONGELAP.

AS YOU MAY KNOW, I AM A FORMER MEMBER OF THE CONGRESS OF MICRONESIA AND PARTICIPATED IN THE AFFAIRS OF THAT BODY ON SAIPAN FOR MANY YEARS. THUS I AM FAMILIAR WITH THE NORTHERN MARIANA ISLANDS. THE RECENT SUCCESSFUL DEVELOPMENT OF THE NORTHERN MARIANAS SHOWS CLEARLY, I BELIEVE, THAT A FUTURE STATUS ALONG THE LINES OF A COMMONWEALTH BETWEEN THE MARSHALLS AND THE UNITED STATES, PROTECTING THE LAND RIGHTS OF THE MARSHALLESE PEOPLE, BUT EXTENDING TO THEM THE BENEFITS OF A PERMANENT RELATIONSHIP WITH THE UNITED STATES WOULD BE THE BEST POSSIBLE SOLUTION FOR BOTH THE U.S. AND THE MARSHALL ISLANDS

ONE OF THE AREAS OF VERY GREAT CONCERN TO US IS THE CONTINUED DISCRIMINATION AGAINST THE PEOPLE OF KWAJALEIN AT THE HANDS OF THE U.S. MILITARY AUTHORITIES RESPONSIBLE FOR THE KWAJALEIN MISSILE RANGE. WE BELIEVE THE CONTINUED FAILURE OF OUR OWN ELECTED OFFICIALS TO TAKE ANY STEPS TO TRY TO REMEDY THIS SITUATION OVER A PERIOD OF NEARLY FIVE YEARS SINCE CONSTITUTIONAL GOVERNMENT STARTED IN THE MARSHALL ISLANDS IN 1979, IS NOT ONLY A GREAT DISAPPOINTMENT BUT A CLEAR INDICATION THAT ALTERNATIVE STEPS MUST BE TAKEN TO SECURE THE FUTURE OF THE

KWAJALEIN PEOPLE AND TO INSURE THEIR MOST BASIC HUMAN RIGHTS. THE COMPACT OF FREE ASSOCIATION IS AN AMBIGUOUS, CONTRADICTORY DOCUMENT WHICH INCLUDES NO FURTHER GUARANTEES OF IMPROVEMENT AND IN FACT PROVIDES LESS FOR THE NEEDS OF MY PEOPLE THAN WHAT WE HAVE NOW. THE ONLY MEANS WE CAN SEE OF SOLVING THIS PROBLEM IS TO ESTABLISH A PERMANENT RELATIONSHIP WITH THE UNITED STATES AND BE ASSURED THE PROTECTION OF U.S. FEDERAL COURTS. IN THIS FASHION WE WOULD NO LONGER BE VULNERABLE TO THE DISCRIMINATION WHICH TAKES PLACE EVERY DAY ON KWAJALEIN.

I AM SUBMITTING TO YOU EXTENSIVE WRITTEN MATERIALS RELATIVE TO THE QUESTIONS OF FUTURE POLITICAL STATUS, INCLUDING A RECENT EXCHANGE OF CORRESPONDENCE BETWEEN THE BANK OF HAWAII AND ONE OF THE MILITARY'S CONTRACTORS AT KWAJALEIN. I BELIEVE YOU WILL NOTE FROM THESE AND OTHER MATERIALS THAT THE QUESTION OF FUTURE POLITICAL STATUS IS ONE OF CRUCIAL IMPORTANCE AND THAT AN EMERGING SUBSTANTIAL NUMBER OF THE LEADERS OF THE MARSHALL ISLANDS NOW SUPPORT COMMONWEALTH RATHER THAN FREE ASSOCIATION ARRANGEMENTS.

AGAIN MY THANKS FOR YOUR TIME AND THE OPPORTUNITY TO SUBMIT THIS TO YOU TODAY.

PIG, POULTRY, AND FISHING ENTERPRISE—A PROFITMAKING DEMONSTRATION
AND EDUCATIONAL COMMUNITY PROJECT

This project will encompass varied technologies and will demonstrate how this system will compliment each other in order to fully utilize the availability of the natural resources of the Islands. In turn the overall viability of the project will be of great benefit for the people of the Islands, as well as the enterprise.

Opportunities to improve the diets and lifestyles of the local people will not interrupt or intervene with the traditions and customs of the Islands.

The objectives of this project are as follows:

1. Provide fresh meat to the Islands.
2. Produce animal feed.
3. Provide employment opportunities.
4. Produce a more economical protein source (than imported product).
5. Provide quality breeding pigs and poultry for sale to all of the adjoining islands.
6. Educate the community through practical application and service-oriented programs.
7. Increase the level of health and nutrition awareness.
8. Implement better opportunities for improved animal husbandry.

Project Requirements

1. 100 sow piggery.
2. 5,000 head poultry (for breeding, and meat and egg production).
3. Two 50 ft. fishing boats.
 - Sell fresh or dried top grade fish for human consumption.
 - Utilize second grade fresh or dried fish for high protein fish meal in animal feed programs via pelleting machine in combination with coconut or other carbohydrate sources.
 - This fish meal would be essential for the animal husbandry program.
4. A slaughter house.
5. A freezer and ice-making machine.
6. Solar air compressor for tools and pressure pumps.

7. Solar pump for water.
8. Wind pump.
9. Solar Rankine Cycle System for generating electricity.
10. Windmill for generating backup electricity.
11. 20 kilowatt diesel generator for backup.
12. Alcohol distiller for fuel from carbohydrate sources (i.e., sweet potatoes, paw paw, bananas, etc.).
13. Anaerobic digester for safer and more hygenic handling of manure. Methane gas for fuel and carbon dioxide (manure) for spiriluna (algae) protein production.

In order to accomplish all of the above tasks and requirements a total allotment of \$1,000,000 would be needed.

If a feasibility study would be necessary, a 60 day mission would be conducted for a fee of \$70,000.

This approximate outline of expenditures is calculated for the next 4 months:

Phase I April 30, 1984	
Travel & Accomodation	\$ 3,000.00
Mobile Home for the Project	11,000.00
Mobile Laboratory, Storage Facility & Office	9,000.00
Mobile Freezer and Ice Maker	10,000.00
Educational Audio Video Program & Equipment	20,000.00
Pigery Building Accessories	12,000.00
Poultry Building Accessories	7,000.00
Food & Fish Drier Material Only	2,000.00
Salaries & Wages	9,000.00
Deposit for Fishing & Transport Vessel	5,000.00
	<hr/> \$88,000.00

Phase II	
Hatchery for Red Perch & Marine Shrimp	\$10,000.00
Shipping Equipment & Animals for Kwajalein	9,000.00
Purchase of Material for Permanent Buildings on Kwajalein	14,000.00
	<hr/> \$33,000.00

Phase III

Purchase of Fishing & Transport Vessel \$32,000.00

Phase IV

Travel & Accommodation, Salary, Food
for Animals, Electric Generators,
Local Purchase for Construction,
Fuel, etc. \$47,000.00

April 6, 1984

Mr. W. H. Dearing
Vice President
Global Associates
P. O. Box 12156
Oakland, CA 94604

Dear Mr. Dearing:

Your letter of March 23 directed to our Vice President D. B. Griffin has been somewhat delayed in arriving here since Mr. Griffin has been assigned to our New York Edge Act Office, where the letter was initially redirected. Mr. Griffin has been replaced as Regional Manager for our Pacific Island Region by Vice President M. D. Schochet. Mr. Schochet has referred your letter to me.

In that letter you have requested that we accept a change in the terms of the latest agreement executed between us on October 1, 1982 under which we operate a branch at the Kwajalein Missile Range (KMR). The existing agreement provides that our banking services are to be offered without limitation "to all individuals and organizations within the Trust Territory of the Pacific Islands to the extent allowed by law."

The proposed revision (Revision 1) which you have sent us with your March 23 letter avoids use of the language quoted above which I have underlined for facility of reference. In lieu of this very broad language, the revision is so drawn as to limit availability of our banking services to five specific groups of users, none of which - with one exception - can be construed to have even the prospect of including those intended to have been covered under the language of the October 1, 1982 agreement.

Accompanying your letter is a copy of a letter from Col. J. W. Banks, Commanding Officer KMR to Mr. Oscar de Brum, Chief Secretary, Republic of the Marshall Islands (RMI) dated February 15, 1984. In that letter, Col. Banks refers to the reported readiness of the Bank of Guam's Ebeye branch to provide full-service banking. He states, in that connection:

"In view of the progress made by the Bank of Guam and our mutual goal to encourage Ebeye economic development and movement toward self-sufficiency, it would appear timely and appropriate to no longer allow routine access to this installation for banking purposes effective February 27, 1984."

"As I have often discussed with you, we here at KMR are especially sensitive to the needs of the Ebeye community and the Kwajalein Atoll Local Government as we move toward our new relationship. I believe that this action should cause no hardship and is but another positive step toward implementing the local economic development plan. Should any individual cases arise which merit access to the Bank of Hawaii, they will be considered on a case by case basis."

In addition to Col. Banks' letter, you sent us a copy of a March 9, 1984 letter from BMD Systems Command, Huntsville, Alabama (Billy F. Perkins, Contracting Officer) directed to Mr. A. Santos, President of Global Associates forwarding a copy of Col. Banks' February 15 letter. The BMD letter states that the February 15 letter requires "Marshallese accounts to be phased out from the Kwajalein Branch of Bank of Hawaii by February 27, 1984." (all above underlining added for emphasis). As a result of the stated requirement, the BMD letter points out that the "phasing out" constitutes a change to the current sub-contract (Global and Bank of Hawaii) and requests your company consider modification. You have complied with that request by your March 23 letter.

We regret that we cannot agree quite so readily to this proposed change. There are numerous reasons for our position and the following discussion is intended to establish our logic:

1. There can be no question that Col. Banks, as Commanding Officer has absolute right and authority to establish access to KMR facilities. We have real concerns, however, as to the probable even-handedness of the "case by case" consideration of the merits of granting access to our KMR branch.
2. You have implicitly recognized one of our dilemmas relative to the change by recommending that "the Bank use the badging system at KMR as the control mechanism to determine authorized users." This places upon us a "policing" burden which we are not prepared to accept.

Indeed, it is our belief that the directive to change and your suggestion for enforcement imply a blatantly discriminatory practice with respect to those Marshallese who are routinely authorized access to KMR based on the badge system to which you refer.

3. We acknowledge the validity of the logic that establishment of Bank of Guam's branch on Ebeye constitutes a positive step toward developing that local economy. We take strong exception, however, to the implication that Bank of Hawaii has not been a factor to that end. Bank of Hawaii has provided full banking services throughout the entire Trust Territory areas for 25 years for the purpose of fulfilling identified economic needs. Our Kwajalein Branch has long served to fulfill the related needs of the residents of Ebeye, who have had ready access to its premises during its entire existence. More critically, however, we feel very strongly that - at their personal pleasure and discretion - any individual, resident anywhere, should ordinarily have the right to conduct their affairs with anyone they may choose. The "policing" question aside, we are completely in disagreement with the logic that we should refuse to serve a Marshallese - because he

is a Marshallese. Col. Banks' letter makes no case to justify such a position.

As a matter of fact, I'm not at all sure that BMD has not misconstrued Col. Banks' intent. I find it possible to interpret his intent to have been to restrict routine access to KMR for the sole purpose of conducting banking business. We take no exception to this position.


4. We enjoy the benefit of a sizable number of deposit and loan relationships with RMI citizens at our Kwajalein Branch. Your company handles numerous allotments for your employees which payments are made to our Kwajalein Branch for credit to the respective employees' accounts. Additionally, a substantial number of banking transactions are conducted with our Kwajalein Branch through the mails. We fail to find any justification for our discontinuing any of this activity. Surely, if that should be our Marshallese customers' intent, we could not object to recognition of the individual's wish.
5. Finally, aside from the issue we have raised above, we take severe exception to what appears to be an obviously biased and completely pre-mature attempt to pre-empt our position in this matter. This is evidenced by the two letters, copies attached, between RMI and our Kwajalein Branch Manager. This totally unwarranted and - in my view - reprehensible interference in the personal affairs of RMI employees suggests that there is more involved here than at first would appear reasonable to expect.

We have gone to great lengths to detail our concerns because we recognize the very uncomfortable position in which you find yourself. I have taken the liberty of providing copies of this letter to Col. Banks and Mr. Perkins so they will understand the extent and nature of our concerns and our resulting unwillingness at this time to comply with the requested contract revision.

Additionally, because we are concerned with the discriminatory implications we have identified, and recognizing the vulnerability all parties to this situation could face as a result, I am sending copies to all four of our Congressional representatives. We are well aware of their deep concerns for the welfare of the people of our Pacific Island neighbors. We think this may accordingly, be a matter of interest to them.

We would welcome an opportunity to discuss this situation under circumstances more conducive to mutual determination and agreement than correspondence by mail. To that end, we look forward to your response and comments.

Sincerely,


S. W. Widasky
Senior Vice President

March 12, 1984

Mr. George Igawa
 Manager, Bank of Hawaii
 Kwajalein

Dear Mr. Igawa:

We recently received a letter from our Kwajalein Atoll Representative, Mr. Jiba Kabua, informing us of the intention of KMR to eventually cease providing banking services to our Ebeye employees through your bank and have them utilize the Bank of Guam on Ebeye. He suggested that we proceed to cancel their bi-weekly allotments to your bank and transfer them to the Bank of Guam on Ebeye.

Before we can effect this transfer we need a written confirmation from you that these people do not have outstanding loans with your bank. Those affected will only be the RepMar employees currently working on Ebeye. I believe you can get the names of the allottees from the lists accompanying the allotment checks.

Hoping to get an early reply, I remain

Sincerely,

V. A. Muller

March 21, 1984

Mr. Vincent A. Muller, Chief
 Accounting & Finance
 Republic of the Marshall Islands
 P. O. Box D
 Majuro, Marshall Islands 96960

Dear Mr. Muller:

Thank you for your letter of March 12, 1984.

At the present time, we do not have any intention of discontinuing banking services to your Ebeye or Majuro employees.

The allotments that have been established by your employees have been done on an individual basis. Therefore, we are unable to understand how Mr. Jiba Kabua can authorize any changes to the existing individual allotments.

Please write again if further information is needed.

Sincerely,

Geo. H. Igawa
 Manager

STATEMENT OF SENATOR IMADA KABUA, MEMBER, MARSHALL ISLANDS NITIJELA; PRESIDENT, KWAJALEIN ATOLL CORPORATION; CHAIRMAN, KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

This is to express the great concern of the landowners and residents of Kwajalein with regard to the Compact of Free Association.

The basic relationship between the Kwajalein people and military authorities who administer the Kwajalein Missile Range is determined by the formal agreements concluded in October 1982, at the end of the prolonged occupation by Kwajalein landowners of several islands of the Atoll during the months of June to October 1982.

The formal agreements by which the occupation (known as Operation Homecoming) was ended consist of an Interim Use Agreement ("IUA") between the United States and Marshall Islands Governments and a Land Use Agreement ("LUA") between the Kwajalein Atoll Corporation and the Marshall Islands Government. Both of these agreements are for the time period October 1, 1982, to September 30, 1985. The IUA between the two governments has provisions by which it will remain in force for a period of up to 30 years if the Compact of Free Association becomes effective before the expiration of the IUA on September 30, 1985.

Because the IUA is an agreement which would continue in force under the Compact, the people of Kwajalein are, for all practical purposes, already living under the conditions which will exist under the Compact.

Those conditions, including particularly the restrictions on access, limitations on employment by the Kwajalein Missile Range, and the absence of basic economic and social services, are not tolerable in the short term and are positively unthinkable for a long-term period such as the 30 years contemplated under the Compact.

Our Kwajalein Mayor, Alvin Jacklick, testified last month in hearings of the U.S. Senate Committee on Health, Education and Labor, conducted by Senators Weicker and Inouye in Honolulu, and

a copy of his statement to that committee dealing with present health and education problems in Kwajalein is furnished to you as an attachment to this Statement.

The Kwajalein community is the single group most directly affected by the United States in all of the Trust Territory. I believe it is also fair to say that Kwajalein is the single most important part of the Trust Territory to the United States from the point of view of strategic interests.

My constituents, the people of Kwajalein, voted overwhelmingly against the Compact in the September 1983, plebiscite. The margin of that vote in Kwajalein was three-to-one against adoption. The few votes the Compact did receive in Kwajalein came not from the landowner community but from those who had come from other parts of the Marshall Islands to work in Kwajalein.

The decision to formulate a free association relationship for Micronesia was made in the late 1960's. My generation of leaders, raised under American administration and educated in the United States, has an entirely different perspective from the leaders who made the decision for free association more than a decade ago.

Because our present conditions at Kwajalein are the conditions which will obtain under the Compact, we know for a certainty that the Compact will not provide a workable relationship for us.

With all due respect to both the Micronesian and U.S. Government representatives that have been involved in the long negotiation and drafting process, it is my personal view that we would all be wise to steer a different course. It seems to me the emerging relationship of the Commonwealth of the Northern Mariana Islands to the United States provides a much better model for how we should shape our future than does a continuance of the conditions and circumstances which presently affect us so negatively at Kwajalein.

My personal view is that few of the leaders and almost none of the public at large in the Marshall Islands had any real

understanding of the meaning or implications of the Compact. Because we at Kwajalein are touched and affected in every aspect of our lives by the present and prospective Compact arrangements, we have become distressingly familiar with the implications of the Compact.

I believe the members of the U.S. Congress must exercise a responsible leadership role and must ask the most fundamental questions: Will this arrangement work? Does it serve either U.S. or Micronesian interests? I submit that the answer to both questions is negative and that the daily experience of Kwajalein is more than sufficient proof that further pursuit of the free association relationship will be harmful to all concerned.

STATEMENT OF MEMBERS OF MARSHALL ISLANDS NITIJELA
IN SUPPORT OF COMMONWEALTH STATUS FOR MARSHALL ISLANDS

February 23, 1984

The undersigned members of the Marshall Islands Nitijela, representing the atolls of Kwajalein, Ebon, Jaluit, Lae, Lib, Mili, Rongelap, Wotje, hereby express their support for reexamination of the attempts which have been underway for fifteen years to try to formulate a future status of free association for the Marshall Islands. We call on the governments of the Marshall Islands and the United States to instead move toward establishing a future status for the Marshall Islands along the lines of the model already established by the Commonwealth relationship of the Northern Mariana Islands to the United States.

We support the Statement of Senator Imada Kabua of February 7, 1984, calling on the United States Congress to reject the Compact of Free Association, and to review the entire question of U.S. policy toward the future political status of the Marshall Islands with a goal of achieving creation of a Commonwealth arrangement, by which fundamental sovereignty of the people of the Marshall Islands over their

lands, waters and natural resources is recognized and maintained, by which Marshallese custom and tradition as embodied in the Marshall Islands Constitution is recognized and guaranteed, and by which the people of the Marshall Islands shall gain the benefits of United States citizenship, including full access to and protection of the courts of the United States and full protection of the Constitution and laws of the United States.

We join Senator Imada Kabua's statement of February 7, 1984 and agree that few of the leaders and almost none of the public at large of the Marshall Islands had any real understanding of the meaning or implications of the Compact of Free Association. We agree that the U.S. Congress must exercise a responsible leadership role and must ask the most fundamental questions: Will this arrangement work? Does it serve either U.S. or Micronesian interests? We submit that the answer to both questions is negative and that the further pursuit of a Free Association relationship, already an undertaking which has failed for more than a decade, will be harmful to all concerned.

STATEMENT ISSUED ON BEHALF OF THE FOLLOWING MEMBERS:

ATAJI L. BALOS
SENATOR, KWAJALEIN ATOLL

TIBNE PHILLIPPO
SENATOR, LAE ATOLL

IMADA KABUA
SENATOR, KWAJALEIN ATOLL

ALDEN BEJANG
SENATOR, LIB ATOLL

HERMIOS KIBIN
SENATOR, KWAJALEIN ATOLL

CHUJI CHUTARO
SENATOR, MILLI ATOLL

EKPAP SILK
SENATOR, EBON ATOLL

JETON ANJAIN
SENATOR, RONGLAP ATOLL

EVELYN KONOU
SENATOR, JALUIT ATOLL

LITOKWA TOMEING
SENATOR, WOTJE ATOLL

CARL HEINE
SENATOR, JALUIT ATOLL

STATEMENT BY ALVIN JACKLICK, MAYOR
KWAJALEIN ATOLL LOCAL GOVERNMENT,
KWAJALEIN, MARSHALL ISLANDS

Chairman Weicker, Senator Inouye, Ladies and Gentlemen, first I would like to thank the Committee for allowing me the honor of speaking to you today on behalf of my constituents, the people of Kwajalein Atoll in the Marshall Islands. Secondly, I wish to thank you, Senator Inouye, for your remarks regarding the Compact. Our people at Kwajalein voted over 75 percent against the Compact in the Marshalls plebiscite in September. We believe the Compact's health and education provisions under section 216 are totally inadequate and we are distressed that the Reagan Administration is going to submit the Compact to the Congress when it reconvenes this month. I have served since July 3, 1983 as the elected Mayor of Kwajalein. Our community consists of 8,500 people. 5,000 of those are native landowners of Kwajalein Atoll and the remainder are other Marshallese or Trust Territory citizens who have moved to Kwajalein in the period since World War II.

There is also an American community of an additional 3,500 people. They live on Kwajalein Island itself which is about 900 acres and the site of the Kwajalein Missile Range. Most of these people are contractor personnel affiliated with the Army's Missile Range.

Almost all of the indigenous population of Kwajalein Atoll was relocated in the early 1950's to the nearby island of Ebeye. It is now a predominantly Marshallese community whose population has grown to 8,500 people living on about 65 acres of total land area. This has created a population density 25 times greater than that of the American community.

The health and educational facilities of the Marshallese community existing on Ebeye Island are the focus of my remarks to you today.

Notwithstanding nearly 40 years of United States administration of Kwajalein, since the taking of Kwajalein in a battle on

February 9, 1944, adequate educational facilities have never been put in. We have only one public elementary school with 1,115 students. There is no high school. The only opportunity our young people have to go on to high school is by going to one of the several public or private boarding high schools 270 miles away on Majuro or, as in a few cases, by going to Hawaii or the U.S. mainland when U.S. church groups are able to provide assistance. Less than half of our students who complete elementary school go on to any form of secondary education.

Because of the removal of our population from our home islands to make possible missile test activities of the Kwajalein Missile Range, our lifestyle is entirely urban. This makes even more critical the need for basic secondary and technical education.

Marshallese employment opportunity at the missile base is limited. The Army imposes specific policy directives of about 550 jobs, although we are certain that with adequate education and technical training programs, Marshallese persons could fill all of the logistic support employment opportunities at Kwajalein. These number about 1,500.

Our situation with respect to health is much worse.

First of all, except on an emergency basis, with emergency strictly defined, the Army's excellent hospital on Kwajalein Island is unavailable to our people. The hospital on Ebeye Island, consisting of one emergency room, one delivery room, one laboratory, and 12 beds for patients, is woefully inadequate both in size and scale.

The medical staff consists of only two doctors, three practical nurses and one paramedical person, a medex, for total medical service to our people. The chief of medical staff of the hospital regularly sees 100 patients per day, which is a level of activity far beyond any physician's ability to render adequate health care, no matter how dedicated the physician might be.

Sanitary and public health conditions on Ebeye Island have remained far below any acceptable standard. Many of the Island's dwelling units do not have sanitary running water and the recently renovated sewage disposal system has not yet been hooked up to all of the houses.

Some fresh water is barged from the Army facility on Kwajalein Island to Ebeye Island on shipments which come three times weekly. However, the Army charges our National Government for these shipments so naturally the tendency is to minimize the supply of fresh water.

My local government and the Government of the Republic of the Marshall Islands are in the process of transfer of both local taxing authority and some administrative functions.

It is, of course, our great hope that we can do a better job of operating the education and health care systems than has been done to date by either the Trust Territory or Marshall Islands governments.

However, I must tell you that the present outlook is bleak, particularly as we are confronted with outbreaks of communicable diseases at Ebeye. For example, we presently have a doctor from the World Health Organization based in the Philippines who is on Ebeye Island conducting further investigation with respect to the possibility of an epidemic of tubercular meningitis. One child died of meningitis in the month of December 1983.

At the time of the death of the child, there were not adequate antibiotic medical stocks in the Ebeye hospital. The line of bureaucratic responsibility which it was necessary to pursue in order to get adequate medications was complex. The request for assistance went first from Ebeye to the Marshall Islands Ministry of Health Services on Majuro, then to the Trust Territory Health Department on Saipan in the Mariana Islands, then to the Federal Regional Office of Health and Human Services in San Francisco, and finally, to the Hawaii State Health Department in Honolulu and then back to Ebeye.

There is now, thanks to the assistance of all of those agencies, a stock of adequate antibiotics specifically necessary for treatment of meningitis in the Ebeye hospital. However, obtaining adequate medical stocks, adequate personnel, and adequate public health measures has always been a losing battle for our community. The rows of tiny graves in our cemeteries on Ebeye grimly show that the death of our young children of one, two, and three years of age is all too common.

The entire problem of overcrowding, and the restrictions of our movement and access to other islands, are forced upon us by the Army and agreed to by our National Government. The difficult social and economic conditions which flow from this set of circumstances is attributable to the impact of a major military installation on our Atoll.

Because of this, we take the view that the responsibilities for provision of adequate education and health care are fundamental responsibilities of the United States under the Trusteeship. We look to the United States Government, which has the necessary resources to respond to our situation, and we hold it responsible to help us deal with the problems we confront.

We in our local government and in our community are more than willing to do everything within our power to responsibly administer our affairs and to resolve our own problems. But we must have help from the federal government of the United States in the form of both adequate taxing authority to raise revenue, and in the form of specific technical personnel and basic facilities. The leadership of Kwajalein Atoll is trying very hard to provide a future for the children of our islands and we sincerely hope that those of you here today will feel sympathetic to the needs of my people.

Let me end in my statement today with a proverb I've carried with me for some time now and have come to believe in . . . "He who does not move forward, moves backward."

Thank you very much.

23 March 1984

The Honorable Richard T. Montoya
 Assistant Secretary for
 Territorial and International Affairs
 Department of the Interior
 Washington, D.C. 20240

Dear Secretary:

As you are aware, it has been almost a year since President Kabua wrote to the Secretary of the Interior requesting that the Secretary amend Secretarial Order 3039 to enable the Republic of the Marshall Islands to increase the Marshall Islands income tax applicable to Kwajalein residents from three to five percent. A copy of that letter is enclosed for your convenience. To date, my Government has not received a response.

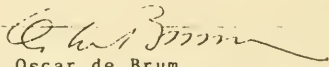
We solicit the assistance of your good offices in this matter. As you know, my government is greatly in need of revenues to provide essential services to the people of the Marshall Islands, including health care services. If the requested amendment had been approved last year, we are informed by our Department of Finance that the Republic would have generated an additional \$900,000 in revenues during FY 1984.

When you visit President Kabua next month in Majuro, I am sure he would be pleased, if you were able to bring him word that the Secretary had acted favorably on his request.

The income tax for all other residents of the Marshall Islands is six percent on the first \$11,000 and ten percent thereafter. The requested increase would establish a more equitable tax system, and it is consistent with provisions of the Compact of Free Association.

Your assistance in obtaining prompt and favorable action by the Secretary would be greatly appreciated by my government.

Respectfully submitted,


 Oscar de Brum
 Chief Secretary

April 18, 1983

The Honorable James Watt, Secretary
 Department of the Interior
 Washington, D.C.

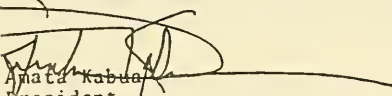
Dear Secretary Watt:

This is to request that you amend Secretarial Order 3039 to enable the Republic to increase the Marshall Islands income tax rates applicable to Kwajalein residents from three to five percent. The intent

of this action is to establish a more equitable tax system and to increase internally generated revenues.

Your favorable response would be appreciated.

Sincerely,


Amata Kabua
President

AUG 8 1983

Memorandum

TO: Solicitor

**FROM: Assistant Secretary
Territorial and International Affairs**

SUBJECT: Marshall Islands Request to Amend S.O. 3039

We have received the attached request from President Amata Kabua of the Republic of the Marshalls, asking for an amendment to Secretarial Order 3039. President Kabua is interested in raising the income tax rates applicable to residents and non-residents of the Marshall Islands.

I would appreciate an opinion on the following question: Is it within the legal authority of the Government of the Marshalls to increase taxes from three to five percent, as long as any such tax is applied uniformly to all residents of the Marshall Islands?

Your assistance in this matter is appreciated.

(sgd) Pedro A. Sanjuan

Pedro A. Sanjuan

STATEMENT OF IMADA KABUA, SENATOR, CHAIRMAN, KWAJALEIN ATOLL DEVELOPMENT AUTHORITY

Chairman McClure, members of the Committee, Secretary Montoya, High Commissioner McCoy and other distinguished participants in these hearings.

Approximately one year ago the Kwajalein Atoll Development Authority commenced operations with the assistance of the Government of the Republic of the Marshall Islands, pursuant to article VII of the Interim Use Agreement between that government and the Government of the United States. Legislation making the Authority a statutory corporation under the laws of the Marshall Islands is pending before the Nitijela.

The Authority is charged with formulating a comprehensive plan designed "to improve habitation conditions on Ebeye Island and to develop for habitation other available islands in

the Kwajalein Atoll." The Authority is also responsible for implementation of the Development Plan.

Currently the Authority consists of nine members, including representatives of the National Government, Kwajalein landowners, traditional leaders and Kwajalein elected and local government officials. Recently the Authority voted to support the addition of two persons to its membership, one from the minority landowners group on Kwajalein, and the other from the Kwajalein Atoll Chamber of Commerce.

In furtherance of its responsibilities the Authority has retained the services of an architect/planner who is working on the comprehensive operational plan for the development of Kwajalein Atoll. A preliminary overview of the plan was made available to your Committee staff several weeks ago and is attached hereto.

Certain construction work on Ebeye Island has already been completed utilizing Interim Use Agreement funding for FY80 and FY81. Included in this category is the sewage treatment plant (which is now operational), rehabilitation of the hospital, installation of a new pressurized fresh water treatment facility and distribution system, rehabilitation and upgrade of the island's power plant, and initial work on the salt water sewage collection system. Also notable is the cleanup program instituted by the local government which by all accounts, has resulted in dramatic improvements to the island environment.

The fresh water treatment plant has allowed closer monitoring of the barged water shipments to Ebeye from Kwajalein Missile Range. Recent records indicate the three weekly trips by the KMR water barge bring an average weekly total of 240,000 gallons of fresh water. If none is lost this allows only four gallons per person per day which is far below acceptable minimum standards for personal hygiene, food preparation, sanitation or clothes washing. Given this and the adverse environmental conditions of constant wind, dust, saltspray, heat, and humidity, the overcrowded living conditions on Ebeye remain intolerable.

New infrastructural developments and the improved reliability of the existing power plant, due to recent upgrading, has resulted in a significant increase in power demand on the island. Over the last year this demand has jumped from 900 kilowatts to 1600 kilowatts at peak demand. The plant's maximum capacity of 1920 kilowatts will be exceeded as soon as planned island improvements become operational.

Because of the critical water and power needs, the Authority has voted for construction of a new 5,250 KW power plant utilizing two low-speed diesel engines of American design and manufacture. This operation will interface with a desalination plant using the waste heat from the power plant engines. The small engines in the existing power plant will be used as a source of standby and peaking power until such time as a third low-speed diesel engine is purchased. Initially the desalination system should provide 140,000 gallons of fresh water each day. At peak operation, the plant is designed to produce almost 300,000 gallons per day. Similar units have been operational in the Virgin Islands for several years and are operating very well.

While final costs for the power and desalination plant remain to be negotiated by the Honolulu office of the Corps of Engineers, it appears that design equipment and construction costs will fully utilize the 12.7 million dollars remaining Authority funding under the Interim Use Agreement.

It is anticipated that additional KADA funding will be available for construction of a causeway between Ebeye and Ninge Islands, a distance of some six miles, from rental payments for the use of Kwajalein and other islands by the United States

Army. The causeway will open up new land areas for resettlement of the existing population, providing the first practical and meaningful solution to Ebeye's overcrowding dilemma.

If these projects would completely correct the untenable conditions which have existed for so many years, I would not be taking this Committee's time, Mr. Chairman, since funding is basically identified for their implementation. But other immediate needs must also be addressed. If the Authority spends all of the 12.7 million dollars from the Kwajalein lease on the water and power projects, these additional current needs will remain unaddressed.

1) Last year a fire destroyed sixteen Ebeye homes. Since the island has no fire fighting equipment, the blaze had to be contained by bulldozing adjacent houses to create a protective break. The fire, and efforts to contain it, left some three hundred persons homeless. Today these people remain in temporary quarters including the community "shelter" facility where they will remain until adequate housing can be provided.

2) Constant winds on Ebeye, averaging fifteen knots, drive dust from streets into the homes. After the completion of a new sewer system, temporary paving will be needed to meet this problem pending the installation of permanent streets.

3) Existing concrete water storage cisterns at government residences have been cleaned and new covers installed. However, numerous leaks in the tanks need to be repaired, or ongoing installation of new guttering will be ineffective.

4) The water line from the existing catchment area on the south end of Ebeye must either be replaced, or repaired. Approximately three thousand feet of main line is involved. Leaks in the line at this time prevent transfer of what little water is trapped by the limited catchment area. The catchment must also be treated, resealed or covered with a lining if it is to supplement the other water sources we are developing. At this time the water from the catchment is not suitable for introduction into our new system, even as raw water.

5) Planting of trees and other foilage is necessary to break the wind on Ebeye's ocean-side. Years ago, when such tree breaks existed, the wind was much less of a problem. There will be an island wide planting and beautification program as well to provide much needed shade and to enhance the physical environment.

6) As sixty per cent of our population is under sixteen years of age, the two small areas for recreation on Ebeye must be improved to accomodate those who otherwise have no acceptable outlet for youthful energy.

7) Our school facilities are grossly substandard and overcrowded. Most of these buildings were constructed years ago as temporary structures and are now beyond repair. In order to provide our future generation the education they deserve and so desparately require to insure our island's on-going progress, we must address this pressing need with new structures and equipment.

8) A sanitary landfill project is critically needed to contain and control refuse disposal. Limited land area dictates filling a portion of the reef on the northend of the island which will not only free existing land for other uses but create new land area for public use.

If this Committee provides three million dollars this year to be applied towards the cost of the desalination

plant, a like amount of IUA agreement KADA funding will be, as a result, made available for the needed work on roads, schools, conservation areas, catchment, water line, recreation areas, sanitary land fill, cisterns, a fire station and housing assistance. Completed work during the past year shows that we can and will make meaningful improvements on Ebeye if funding is made available. With the help of the appropriation the progress we are now experiencing will not be slowed and the emerging hope and spirit of our people, which is beginning to reform the slum that has been Ebeye, will continue to grow.

Should funding for the desalination plant be made available to KADA as recommended in the Sieberling Committee Report, Interim Use Agreement funds now designated for that project will be replaced and rechanneled into the projects listed herein and incorporated into the overall Kwajalein Atoll Development plan.

A final comment involves the recommendation of Representative Sieberling's Subcommittee report to this Committee on funding needed for Kwajalein Atoll operations. In addition to the three million dollars for the desalination plant, the Congressman addressed the urgent need for maintenance funding by recommending one million dollars for FY85. As you are aware, the Government of the Republic of the Marshall Islands has a large deficit. Although taxes on Kwajalein generate several million dollars in revenue each year, power plant fuel expense, together with costs of keeping the health and education systems operational on Ebeye, do not leave adequate funding for required maintenance of infrastructure.

When initially constructed three years ago, our new sewage treatment plant ceased operations within six months due to lack of maintenance. Raw sewage polluted our lagoon and littered our beaches for the next two years. If expert care is not given to our marginal salt water sewage collection system on a daily basis, pressure is lost and we have no means to flush toilets. Air conditioning and water heating equipment at our hospital and our sewage lift stations also need constant attention. Parts for the existing power plant, if it is properly maintained, can run as much as twenty thousand dollars each month. Fuel is projected to cost \$912,000.00.

We are concerned that the National Government's enhanced "O&M" training program will not adequately fulfill operation and maintenance requirements. We believe the best results can be achieved by contracting with a private firm, specializing in maintenance operations, to work with our people on a day-to-day basis and be responsible to our local government for the utilities operations.

Such a contract, including power plant operations and upgrade of public works functions to complement the private operator, will require one million dollars in FY85, with reductions in following years as matters are brought under control.

Therefore, I ask this Committee's support for the appropriations recommended by Congressman Sieberling's Committee with regard to Ebeye; specifically, three million dollars for the desalination plant, one million dollars for upgraded maintenance of our utility systems, one million dollars for power plant fuel and oil, and three hundred thousand for water barging until our desalination facility is completed. We will put the funds to their intended purpose, and assure you that full value will be obtained. With your help, and our determination, Kwajalein Atoll can finally become a decent place to live. I invite you to visit Ebeye and see whether we are keeping our part of the bargain.

STATEMENT OF JONATHAN M. WEISGALL, LEGAL COUNSEL TO THE PEOPLE OF BIKINI

Thank you for providing the people of Bikini with an opportunity to submit this statement for the record.

I. Compact of Free Association

As you consider the Bikini situation, you must understand that the passage of the Compact of Free Association, which President Reagan submitted to Congress on March 30, may terminate this Subcommittee's jurisdiction over the Bikini problem. First, it is the Administration's position that the Compact contains all U.S. funding for the Marshall Islands over the next 15 years. Once the Compact becomes effective, the Interior Department will no longer appear before the Subcommittee to justify its annual budget for the Marshall Islands. Passage of the Compact will terminate U.S. trusteeship of the Marshalls and the role of the High Commissioner and the Interior Department in administering the islands, and it will create a near-autonomous Government of the Marshall Islands, which will automatically receive funding from the U.S. Government under the full faith and credit clause. Second, the President's FY 1985 budget that was sent to Congress in January contains funding for the Compact under the State Department's budget, not Interior's, should the Compact be approved this year.

Third, the Compact fails to address serious problems the Bikinians face, the most important of which is the cleanup of Bikini Atoll. Lastly, the Compact, by its own terms, "constitutes the full settlement of all claims, past, present and future, of the Government, citizens and nationals of the Marshall Islands which are based upon, arise out of, or are in any way related to the Nuclear Testing Program, and which are against the United States" Given these facts, the Bikinians, who voted 90% against the Compact, may not be able to appear before this Subcommittee -- or any other Congressional committee -- to seek Congressional assistance once the Compact becomes effective. We are at the eleventh hour.

Six years ago, the Deputy Assistant Secretary of State for International Organization Affairs stated to the House Interior Appropriations Subcommittee:

We are fully cognizant of our responsibilities to the [people of Bikini] under the [United Nations] Trusteeship Agreement and particularly Article 6 which enumerates the responsibilities of the U.S. towards the people of Micronesia. These include . . . protecting the inhabitants against the loss of their lands and resources. We intend fully to discharge our responsibilities.^{1/}

In August 1978, the Undersecretary of the Interior, High Commissioner, and Director of Interior's Office of Territorial Affairs signed a "Statement of Understanding" which read in part: "The Government of the United States considers itself generally responsible for the well being of the Bikini people and their descendants" We have come a long way since these pledges were made, as the executive branch of the U.S. Government now stands on the brink of walking away from the Bikini people without discharging its responsibilities to them.

II. Cleanup of Bikini Atoll

Public Law No. 97-257, passed by Congress in September 1982, appropriated funds for a study on the feasibility and estimated cost of cleaning up Bikini Atoll. The Bikini Atoll Rehabilitation Committee ("BARC") issued its interim report last November, which stated that it is technologically feasible to clean up Bikini and Eneu, the two principal residential islands in Bikini Atoll, and that the estimated cost would be approximately \$100 million. In May 1 testimony before the House Interior Appropriations Subcommittee, BARC Chairman Henry I. Kohn, Professor Emeritus of Radiation Biology at Harvard Medical School, stated that the cleanup cost could be as low as \$60 million. This amounts to about 1/20th of one percent of the present value of the \$20 billion the U.S. Government spent on its nuclear testing program through 1954, not to mention the strategic value of the testing

^{1/} June 19, 1978 Hearings Before the House Appropriations Subcommittee on Interior at 965 (compiled in Second Supplemental Appropriation Bill, 1978 - Part 3).

program to our country and the billions of dollars in defense savings it provided in the late 1940's and 1950's. Absent a cleanup, the Bikinians will have to wait about 125 years before they can safely return to Bikini Island.

In the late 1970's, the U.S. Government conducted a cleanup of Enewetak Atoll in the Marshall Islands, which was also used for U.S. nuclear testing. The people of Enewetak are back on their atoll today. The people of Bikini are entitled to no less.

It is difficult to predict exactly how long it will take to clean up Bikini Atoll or exactly what the cost will be. The project will require more scientific input and environmental and logistical planning before actual on-site work commences. Since all the funding is not needed at once, the Bikinians urge this Subcommittee, at a minimum, to accept the March 15 recommendation of the House Interior and Insular Affairs Committee to commit the U.S. Congress to fund the cleanup and to provide for the annual appropriation of \$10 million starting in fiscal year 1985 until the cleanup is accomplished. For your convenience, the House Interior Committee's recommendations on this and other relevant issues are attached to my testimony.

I would also propose that while these funds should be appropriated through the Interior Department, Congress should direct that complete control of the project should be placed in the hands of a blue-ribbon scientific committee similar to the Bikini Atoll Rehabilitation Committee. This Committee, like the Bikini Atoll Rehabilitation Committee, would report to Congress, be fiscally responsible to the Interior Department, and call on U.S. Government expertise as needed, but it would also have the flexibility necessary to make a cleanup succeed. This committee would coordinate the cleanup with the people of Bikini, the U.S. Congress and the executive branch of the U.S. Government. Annual appropriations would be placed in a trust

fund so that money not expended in any given year would earn interest and thereby help reduce the overall outlay of federal funds. I think that anyone involved in the Enewetak cleanup, including the members of the National Academy of Science committee that conducted a post facto study of the project, would conclude that private sector control of the cleanup of Bikini would result in substantial savings of time and money.

One last point on the cleanup question: The fact that the Compact purports to terminate all claims of Marshall Islanders against the United States arising out of the U.S. nuclear testing program leaves the Bikinians with no choice but to seek to enforce their legal rights against the United States before the Compact becomes effective. They therefore filed a lawsuit on May 1 in U.S. District Court in Honolulu seeking an injunction to require the executive branch of the U.S. Government to clean up Bikini. The lawsuit is based primarily upon the United States' violation of Article 6 of the United Nations Trusteeship Agreement, under which the United States agreed to protect the Micronesians, including the Bikinians, "against the loss of their lands . . .". Please understand that this lawsuit in no way reflects any dissatisfaction with Congressional efforts to address this problem. On the contrary, the Bikinians remain hopeful that Congress will appropriate the funds necessary to clean up Bikini. Until that occurs, however, they feel obliged to protect their rights in the courts through this action.

III. Temporary Move to Hawaii

There is one other aspect of the Bikini cleanup that I would like to raise today. The Resettlement Trust Fund for the People of Bikini, passed by Congress in 1982 under Public Law No. 97-257, provides funds "for the relocation and resettlement of the Bikini people in the Marshall Islands, principally on Kili and Ejit Islands." The Bikini people have been living "temporarily" on Kili for nearly 36 years, and they do not want to wait on Kili

any longer. Kili, as you know, is only one-third of a square mile, with a very narrow reef and no lagoon, as compared to Bikini's twenty-three islands, wide reef and 243-square mile lagoon. The Bikinians view Kili as a prison, because access to the island by ship is hazardous most of the year due to high surf conditions, making fishing and offloading of boats with food supplies sometimes impossible.

Recognizing that a cleanup of Bikini could take as long as ten years, the people have concluded, as a group, that they would like to resettle temporarily in the State of Hawaii until such time as it is safe for them to return to Bikini. Several sites have been studied, and the costs appear to be within the means of the Resettlement Trust Fund. They have held preliminary discussions with state and local officials about a possible move and the increased social and educational needs it would entail. The Bikinians recognize that such a move would be difficult culturally and socially, but their near-unanimous decision is that they are prepared to make this adjustment and that such a temporary move is preferable to remaining on Kili. They therefore ask this Subcommittee to amend the language of Public Law No. 97-257 to permit resettlement outside the Marshall Islands until such time as Bikini is deemed safe for resettlement. This amendment, which was recommended by the House Interior Committee in its March 15 report, would involve no new expenditure of federal funds, since the trust fund has already been established under 1982 funding.

IV. Health Care

Late last year, nearly four years after the bill was passed, Congress appropriated \$4 million to implement the Burton Health Care Act, Public Law No. 96-205, to provide health care for the people of Bikini, Enewetak, Rongelap and Utirik, and for the people of such other atolls as the Secretary of Interior determines were affected by U.S. nuclear testing.

Health conditions on Kili are deplorable. There were four deaths on the island last year, and there have been two confirmed cases of tuberculosis in the last three months. An alarming number of people on Kili and Ejit suffer from hypertension, diabetes, arthritis and cataracts, and not one child is fully immunized against childhood diseases.

Mr. Seiberling's House Interior Subcommittee on Public Lands and National Parks held extensive hearings on the Burton Act last October 25 and February 7, and the full House Interior Committee has recommended that the \$4 million appropriated last year be combined with an additional \$7 million appropriation in fiscal year 1985 to create a U.S.-based four-atoll health care trust fund.

The Bikini people agree that this is the best way to implement the Burton Act. Accounting practices in the Marshall Islands simply do not meet rigid U.S. standards; a U.S. trust, however, would be subject to stricter laws, and the Interior Department could require annual accountings and audits. Second, a single appropriation now will place a final price tag on what many would otherwise view as an ongoing commitment of the U.S. Government. Lastly, a private sector, nonpolitical health care provider and trustee will be more likely to implement the legislative intent of the Burton Act than the Marshall Islands Government, which, under pressure from all its constituent populations, has maintained over the last four years that health care benefits under the Act must be provided to all Marshallese citizens.

A brief word about trust funds. They are, in my opinion, the best solutions to many of the appropriations needs of the Bikini people. The Resettlement Trust Fund for the People of Bikini, established in late 1982, earned an excellent rate of return in its first year, and the Bikinians themselves are directing the expenditure of its income to hire English teachers, to provide scholarships to Bikinian students in the United

States, and to purchase generators, photovoltaic equipment, health insurance, airstrip maintenance equipment, and the like. Moreover, the trustee must provide an annual accounting to the Interior Department.

This trust fund works. It has permitted the Bikinians to set their own priorities, and it has encouraged a greater degree of self-reliance within the community. Indeed, the Presidential Commission on Indian Reservation Economies, established by President Reagan in 1983, has reviewed the Bikini Resettlement Trust Fund as one of several possible models to help achieve the laudable goals of getting the U.S. Government out of the day-to-day management of Indian trusts and encouraging greater self-reliance as well as private sector development and growth of reservation economies. I strongly urge the Subcommittee to adopt the trust fund concept to implement both the cleanup of Bikini and the Burton Health Care Act, and I submit that this approach is in keeping with this Administration's "private sector" philosophy.

V. Supplemental Food Program

Congress appropriated \$264,000 last year for a supplemental food program for the Bikinians, but the Interior Department has now proposed an appropriations transfer shifting this money to the Trust Territory Government to provide partial reimbursement to the EPA Superfund for the cleanup of 32 hazardous waste sites in Guam and the Trust Territory.

Kili and Ejit cannot support the food needs of the Bikini people. The U.S.D.A. food program is meant to be only a supplement to the diet, but due to conditions on Kili and Ejit it constitutes virtually 80%-90% of the diet. It is for this reason that the Bikinians request a supplemental food program similar to the one provided at Enewetak Atoll. There is a greater issue here, which is that the Compact provides absolutely no food support, U.S.D.A. or otherwise, for the Bikini people in the post-Trusteeship period, and the Bikinians

hope that Congress will address this matter when it considers the entire Compact. For now, however, they ask this Subcommittee to deny Interior's reprogramming request and reinstate the supplemental food program, which would provide the Bikinians with fish, meat, vegetables, and other foods not available on Kili and Ejit.

* * *

Just last week, President Reagan stated at the Guam Airport that the United States has "a natural interest in the progress of all the island peoples of the Pacific," and he added: "With our partnership, much can and will be accomplished." That statement, applied to Bikini, continues a long tradition of hollow statements and unkept promises from the executive branch of the government. Only the Congress has paid serious attention to U.S. obligations to the Bikini people. The people of Bikini deeply appreciate your past efforts, and hope that you and your Subcommittee will help to implement the proposals outlined today.

Thank you.

REPUBLIC OF THE MARSHALL ISLANDS
FY 1984 -- FY 1985 TECHNICAL ASSISTANCE PROGRAM

<u>PROJECT (in priority order)</u>	<u>AMOUNT</u>
1. Comprehensive Health Services	\$ 250,000
2. Medical Referral Caseload Management	85,000
3. Accounts Receivable/Billing/Collection System	75,000
4. Economic Development Plan	100,000
5. Mineral Resources Assessment Program	3,592,000
6. Economic Development Specialist	60,000
7. Off-shore Banking Regulations	25,000
8. National Water Supply Plan	75,000

9. Central Banking	25,000
10. Police Academy Training	40,000
11. Maritime Legislation/Training	<u>125,000</u>
TOTAL	\$4,452,000

PROJECT NO. 1: COMPREHENSIVE HEALTH SERVICES- \$250,000

Funding will be used to contract with an experienced medical care consultant to assist the government to move to and operate the new Majuro hospital facility, which will open in late 1984. A recent report by the Sisters of Mercy Health Care Corporation concluded that technical assistance was required in at least three areas if the new facility is to be operated effectively: (1) training of health services personnel; (2) transition planning from the old to the new facility; and (3) development of operations procedures and manuals, and maintenance procedures and manuals for the new facility.

The health services program presently lacks trained and certified professionals in the following areas: hospital administration, pharmacy, nutrition, laboratory procedures, medical records, hospital procurement and supply, hospital maintenance, and psychiatric nursing. One accredited health care expert is needed for each of these areas to provide training to local staff.

PROJECT NO. 2: MEDICAL REFERRAL CASELOAD MANAGEMENT:-\$85,000

A previous technical assistance project provided funds for a study of the medical referral system. The study, by Siegel and Associates, found that 95 percent of all referrals made in FY 1982 were necessary and that there was "relatively little program abuse". The study also concluded that physician and patient care coordinator positions should be established in Honolulu to manage the Marshallese patient caseload. OTIA has already provided

funding for the physician position and the physician is currently on board.

This request is to provide funding to hire and train a patient care coordinator to be responsible for: (1) facilitating transportation arrangements for patients and their escorts; (2) coordinating and arranging patient living arrangements while in an outpatient status and patient transportation for outpatient treatment; (3) working with hospital staff on patient discharge plans; (4) preparing reports on the status of patient referrals; and (5) working closely with the Honolulu physician, providing translation and other services.

It is proposed to retain Siegel and Associates to train a Marshallese, with a BA or MA in Social Services, to perform these duties. The consulting costs are estimated to be approximately \$60,000 and the salary costs for the patient care coordinator are \$25,000.

PROJECT NO. 3: RECEIVABLES/BILLING/COLLECTION SYSTEM -\$75,000

Funding is requested to establish a consolidated accounts/receivable/billing/collection system, utilizing WANG VS/Comand systems for the following government provided services: electricity, water, telephone/telex, health, and transportation.

At present, the government has a large amount of unbilled and uncollected charges for all of its services estimated to be over \$1.0 million and \$0.5 million for electricity and telephone services respectively. Systems, procedures, and trained personnel are lacking to implement an effective billing and collection system.

The government will shortly possess a powerful, computerized receivables /billing system including a specialized module for utility billings. However, without technical assistance to design, install, document, and test the system, provide training

on the operation of the system, and establish forms, procedures, and information flow, it is likely that the system will go unutilized.

Funding will be used to retain an accounting firm to provide the necessary project support.

PROJECT NO. 4: NATIONAL DEVELOPMENT PLAN- \$100,000

The Compact of Free Association requires the Government to submit an "Official Overall Economic Development Plan" (the Plan) to the United States for approval. Technical assistance is needed in two areas in order for the government to comply with this requirement.

4.a Chief Statistician- \$80,000

Planning in the Marshall Islands is hindered by insufficient statistical information. The government does not have a statistical data base concerning the economic and social sectors influencing the Republic's economy. It lacks a system of national accounts, consumer price index, manpower statistics, census system, or systematic techniques for gathering and analyzing data on capital formation, balance of trade, structure of imports and exports, health and education data, migration, quality of life, public expenditures, and energy use.

It is proposed that funding be provided to hire a Chief Statistician for two years (\$40,000 per annum) to develop a statistical data base to support the Official Overall Economic Development Plan and to train local statisticians, especially in the area of national accounts.

4.b PROJECT DEVELOPMENT- \$20,000

The Compact specifies that the Plan specify the projects which will develop the economy of the Republic, including cost

estimates, and relate those projects to specific development goals and definitions. Assistance is needed in the areas of project definition and analysis, and in conducting feasibility and internal rate of return analysis. It is proposed that technical assistance be provided on a short term basis by the United States Trade and Development Program and the Agency for International Development.

PROJECT NO. 5: RESOURCE ASSESSMENT SURVEY- \$3,592,000

Technical assistance is needed in the assessment and development of the economic marine and energy resources within the Republic's 200 mile Exclusive Economic Zone. Funding will be utilized to conduct a two year program to investigate five resources which have the potential for commercial exploitation: cobalt-rich manganese crusts, deep seabed manganese nodules, phosphate deposits in lagoon areas, precious coral beds, and ocean thermal energy.

The currently scheduled United States Geological Survey cruise will be extended five days for a total of fifteen and three sequential survey cruises of approximately 25 days each will be conducted to determine the location, quantity, and quality of mineral deposits. Analysis of the data recovered from the cruises will include processing of navigation data, laboratory ore assay of nodules samples recovered, processing of bathymetric and subbottom acoustic data, and analysis of photographic data. This analysis will then serve as the basis of the development of a program plan for extensive exploitation of the highest potential mineral resources.

An unbiased technical estimate of the value of the Republic's resources will place the government in a strong position to attract capital for resource development and to deal knowledgeably in negotiating mineral rights with third parties.

Accordingly, the government would retain a resource assessment manager.

Costs of the program are as follows:

1. USGS Cruise Extension	\$	75,000
2. Resource Management and Technical Services		293,000
3. USGS Cruise Representation and Data Analysis		68,000
4. Resource Assessment Surveys and Data Analysis		2,686,000
5. Preliminary Feasibility Study and Recommended Program		<u>470,000</u>
TOTAL		\$3,592,000

PROJECT NO. 6: ECONOMIC DEVELOPMENT SPECIALIST- \$60,000

Technical assistance is needed to encourage the economic development process by facilitating and promoting overseas investment. An economic development specialist will be hired and will serve as the contact point for all potential overseas investors, providing them with relevant information regarding tax laws, regulations, and incentives, permits, infrastructure, local sources of financing and manpower. The specialist will protect Government interests by checking business ventures to ensure that they are legitimate.

Target industries will be identified and the economic development specialist will aggressively seek suitable overseas investors. The long term benefits will be the development of an expanding and diversified economy.

Funding will be used for salary (\$40,000) and travel expenses (\$20,000).

PROJECT NO. 7: OFFSHORE BANKING REGULATION- \$25,000

Short-term technical assistance is needed to develop an effective regulatory system of off-shore banks licensed by the

Government of the Marshall Islands. The government is concerned about the potential for some banks to engage in fraudulent practices. Funding will be used to pay for the professional services and travel expenses of United States Comptroller of the Currency staff to assist the government in developing and enforcing suitable legislation and regulations.

PROJECT NO. 8: NATIONAL WATER SUPPLY PLAN- \$75,000

The Government of the Marshall Islands intends to develop a National Water Supply Plan as part of its Official Overall Economic Development Plan. Water supply problems have been identified as a major impediment to economic development and a serious threat to the public health, in both urban centers and outer island communities.

Technical assistance is needed to develop the Plan, to examine options for solving water supply problems in urban centers and alternative water supply/sewerage technologies for outer island communities. In Majuro, the options include waste heat recovery for desalinization, construction of a water line from Laura, increased storage and catchment capacity, and conservation techniques. For outer island communities, the Plan will address the feasibility of small scale catchment, storage, and reticulation of potable water for community centers and schools as well as methods of waste disposal.

PROJECT NO. 9: CENTRAL BANKING- \$25,000

Assistance is required to develop central banking policy, legislation, and regulations. The government proposes that funding be used to study the central banking facilities of the Solomon Islands.

PROJECT NO. 10: POLICE ACADEMY TRAINING -\$40,000

Funding is required to send six police officers per year to the

University of Guam's Police Academy (six week course). At present, very few members of the police force have received any formal training.

PROJECT NO. 11: MARITIME LEGISLATION/TRAINING- \$125,000

Assistance is needed for: (1) the promulgation of legislation and regulations for a Marshall Islands Maritime Authority, including safety standards; and (2) training in air and marine surveillance techniques. The government intends to procure these services from the United States Coast Guard.

SUMMARY STATEMENT

Secretary DEBRUM. Thank you, sir. Mr. Chairman, since you know all of us it would be needless for me to introduce all of us. We bring greetings of President Kabua and the people in the government of the Marshall Islands.

Briefly, Mr. Chairman, we would like to mention that we have made significant improvements in our financial situation in the district compared to last year. Through the computerized financial management system and hiring of a financial management advisor, through the Technical Assistance Program from the Department of the Interior, Secretary's Montoya's office, and the appointment of a new auditor general for the Government of the Marshall Islands and through the efforts of a very able secretary of finance we were able to eradicate \$2 million of our past year deficit this previous fiscal year.

This is the first time we have done so and we will continue to do so with the assistance from you and from the U.S. Government. Also the Nitijela has passed legislation this March doubling the import taxes that have contributed to the significant financial improvement in our district.

Our funding request, Mr. Chairman, for this year, which we have already submitted for the record—and let me include them again—is \$4.5 million for medical referrals; \$6 million for a water supply project for Majuro; \$2.5 million for construction of the College of Micronesia School of Nursing; \$3 million for initial resettlement of the people of Rongelap Atoll; and \$4.4 million for the construction of capitol buildings for the Republic of the Marshall Islands and \$1.2 million for the Health Services Improvement Program and \$1 for the Outer Island Load Center for the Marshall Islands.

Also, we have asked the Secretary of the Interior, and he has assured us, that the Kwajalein increasing tax from 3 percent to 5 percent will be forthcoming in the secretarial order this year. We wish that this committee help us ensure that this commitment is met.

Because they did not meet this commitment, we have lost revenue in the neighborhood of \$2 million; \$750,000 last year and this year we stand to lose another \$900 million approximately. A \$2 million loss in revenue is great for a government that is trying to have a self-sustaining economic development.

Our problem at this time, Mr. Chairman, is the continued medical referral. We are behind in \$4½ million hospital bills.

We ask that the committee help us with this funding as we requested. Mr. Chairman, we would like once again to reiterate the importance of a compact of free association. We appreciate what has been done by Senator McClure in introducing the compact and we stand ready to participate in any way we can to pursue that in the Congress.

Last, Mr. Chairman, there will be some requests from Bikini and Enewetak people. Although these people have, in the past, approached Congress directly and not necessarily through the Government of the Marshall Islands, nevertheless they have contributed significantly to the knowledge of the science and to the role of peace; and history will tell us how much they have sacrificed and suffered for that cause.

We request that the committee open its sympathetic ears to their requests.

The last one, we want to commend your staff, Mr. Chairman. Through their open-door policy we were able to work together with them and were able to take advantage of their consultations and advice on matters affecting the budget.

Mr. Chairman, I realize we are trying to explain to you 1 hour's explanation in 5 minutes' time; and it's not easy, sir. We appreciate this opportunity.

If we can answer any other question, written or oral, we will be happy to do so.

Senator JOHNSTON. Thank you very much. We will have some questions in writing. As you know, as far as hearings are concerned we are always pressed for time here because there are three and four things going on at once.

But we are fully aware of your problems and we know especially about the problems with your 16 megawatt powerplant and the ability to make those payments. When we get to the compact, though, there should be money to do that.

Thank you very much for your testimony, Mr. deBrum. Did anyone else want to add anything briefly?

[No response.]

Senator JOHNSTON. Thank you very much. We appreciate your being here.

REPUBLIC OF PALAU

STATEMENT OF HON. HARUO N. WILLTER, MINISTER, DEPARTMENT OF
ADMINISTRATION, REPUBLIC OF PALAU

ACCOMPANIED BY:

HON. KOICHI WONG, MINISTER, DEPARTMENT OF NATIONAL RE-
SOURCESES

HON. JOHNNY REKLAI, CONGRESSMAN

NORIWO K. UBEDEI, WASHINGTON LIAISON OFFICER

JONATHAN MAUI, BUDGET OFFICER

OLBIIL ERA KELULAU

ANTONIO BELLS, SPECIAL ASSISTANT, MINISTER OF ADMINISTRATION

PREPARED STATEMENT

Senator JOHNSTON. Finally, we are pleased to welcome our friends from the Republic of Palau. Mr. Willter is minister of the Department of Administration; Mr. Wong is minister of the Department of National Resources; Mr. Reklai, congressman; Mr. Ubedei is from the Republic of Palau, Washington liaison officer; Mr. Maui, budget officer; Mr. Bells, special assistant to the minister of administration.

Minister WILLTER. Mr. Chairman, we have a written statement which we have provided and we would like to request that it be made part of the record.

Senator JOHNSTON. Yes; that will be made part of the record; and I can tell the reporter we also have some other inserts which we will provide for the record.

[The statement follows:]

STATEMENT OF HARUO N. WILLIER

MR. CHAIRMAN AND DISTINGUISHED MEMBERS OF THE COMMITTEE, IT IS MY GREAT PLEASURE AND HONOR TO APPEAR, ONCE AGAIN, BEFORE YOU, ON BEHALF OF THE PEOPLE OF THE REPUBLIC OF PALAU, IN SUPPORT OF OUR BUDGET REQUEST FOR FISCAL YEAR 1985. BEFORE GOING INTO THE DETAILS OF OUR BUDGET REQUEST FOR FISCAL YEAR 1985, PERMIT ME TO INTRODUCE THE NAMES OF MY DELEGATION FOR THE RECORD. TOGETHER WE BRING GREETINGS FROM THE PEOPLE OF THE REPUBLIC OF PALAU TO THIS COMMITTEE AND TO THE PEOPLE OF THE UNITED STATES. WE WOULD LIKE TO EXPRESS OUR PEOPLE'S APPRECIATION FOR YOUR GENEROSITY, TRUST, AND PROVISION OF OUR FINANCIAL NEEDS DURING THE INITIAL STAGE OF OUR CONSTITUTIONAL GOVERNMENT. YOUR CONTINUED UNDERSTANDING OF OUR FINANCIAL NEEDS HAS NO DOUBT HELPED THE YOUNG REPUBLIC OF PALAU TO GROW SINCE ITS BIRTH IN JANUARY, 1981.

FIRST, I WOULD LIKE TO THANK THIS COMMITTEE AND THE U.S. CONGRESS FOR APPROPRIATING OVER \$8 MILLION FOR THE REPUBLIC OF PALAU AS ADD-ONS TO THE FISCAL YEAR 1984 BUDGET REQUEST SUBMITTED BY THE DEPARTMENT OF INTERIOR.

MR. CHAIRMAN, ALLOW ME TO BRIEFLY REPORT TO THIS COMMITTEE THE DEVELOPMENT PROGRESS OF OUR YOUNG GOVERNMENT. UNDER THE MOST DIFFICULT POLITICAL ENVIRONMENT AND EXTREMELY CRITICAL FINANCIAL CONDITIONS, WE HAVE MANAGED TO SURVIVE OVER THE PAST THREE YEARS. WE HAVE ENTERED OUR FOURTH YEAR WITH THREATS TO CLOSE GOVERNMENT OPERATIONS AT THE END OF THE THIRD QUARTER OF FISCAL YEAR 1984, DUE TO LACK OF FUNDS. BUT DURING THIS INTENSE PERIOD, WHEN THE MERE SURVIVAL OF OUR GOVERNMENT WAS OPENLY QUESTIONED BY MANY, OUR GOVERNMENT MACHINERY CONTINUED TO ROLL ON, AND THE PALAUAN SOCIETY AT LARGE CONTINUED TO MOVE FORWARD TO DO THOSE THINGS THAT MUST BE DONE FOR OUR PEOPLE. THE NEW AIRPORT HAS BEEN COMPLETED PERMITTING THE OPENING OF THE SO-CALLED BACK DOOR OF THE REPUBLIC, AND WE NOW HAVE AIR TRANSPORTATION SERVICES BOTH FROM

THE EAST AND TO THE ORIENT WITH THREE AIRLINES SERVING THE ROUTE. AS PART OF OUR ROAD IMPROVEMENTS PROGRAM, WE NOW HAVE PAVED ROADS FROM THE NEW AIRPORT IN AIRAI TO THE MAJOR COMMERCIAL DOCK IN KOROR. WE HAVE BEGUN WORK ON THE FIRST LARGE SCALE, COMMERCIALY ORIENTED POWER PLANT TO SOLVE OUR POWER NEEDS. WE HAVE COMPLETED THE PROCESS OF ORGANIZING CONSTITUTIONAL GOVERNMENTS FOR EACH OF OUR STATES.

THE PRIVATE SECTOR HAS BEEN THE SCENE OF THE GREATEST DEVELOPMENTS TO DATE. A NEW AIRPORT TERMINAL BEING CONSTRUCTED WITH FUNDING FROM A PRIVATE SOURCE WILL BE COMPLETED BEFORE THE END OF THIS CALENDAR YEAR. NEW RESTAURANTS HAVE BEEN COMPLETED TO PROVIDE SERVICES TO THE INCREASING NUMBER OF VISITORS. WITH THE IMPROVED AIR SERVICES AND BETTER FISHING EQUIPMENT AND FACILITIES PROVIDED UNDER A JAPANESE GRANT, THE REPUBLIC OF PALAU IS NOW EXPORTING TONS OF FRESH FISH TO GUAM, HAWAII, AND SAIPAN. ALTHOUGH PUBLIC SERVANTS ARE STILL THE HIGHEST PAID EMPLOYEES IN PALAU, THE GOVERNMENT IS NO LONGER THE MAJOR EMPLOYER IN PALAU. THERE ARE, IN TOTAL, MORE PEOPLE EMPLOYED IN THE PRIVATE SECTOR THAN THOSE IN THE GOVERNMENT. AT NO TIME DURING THE TRUST TERRITORY PERIOD HAD THERE BEEN SUCH A LARGE SCALE VOLUME OF PRIVATE BUSINESS ACTIVITIES AND CONSTRUCTION WORK TAKING PLACE SUCH AS THOSE TAKING PLACE AT PRESENT.

ALTHOUGH WE ARE STILL TRYING TO COME UP WITH A NEW TAX BILL INTENDED TO RAISE ADDITIONAL REVENUES, I AM HAPPY TO REPORT TO YOU THAT OUR EFFORT TO IMPROVE COLLECTION OF DELINQUENT ACCOUNTS HAS PRODUCED SIGNIFICANT RESULTS. THE UTILITY COLLECTION HAS INCREASED FROM \$300,000 IN FISCAL YEAR 1981 TO \$700,000 IN 1983. PEOPLE ARE NOW PAYING THEIR UTILITY BILLS INCLUDING DELINQUENT ACCOUNTS. WE HAVE RAISED THE RATES FROM 6 CENTS TO 9 CENTS PER KILOWATT. IT IS ESTIMATED THAT, WITH A SLIGHT INCREASE IN UTILITY RATES, THE NATIONAL TREASURY WILL COLLECT OVER \$1 MILLION IN

FISCAL YEAR 1984 FOR UTILITY. THE REVENUE AND TAX DIVISION ALSO FILED SUITS AND RECEIVED COURT JUDGEMENT ON SOME \$500,000, OF DELINQUENT TAXES TO BE PAID TO THE NATIONAL TREASURY ON AN AGREED SCHEDULE.

THE NEW WANG COMPUTER IS NOW FULLY OPERATIONAL. EFFECTIVE AS OF OCTOBER 1, 1983, PALAU HAS BEEN OPERATING WITH ITS OWN COMPUTER AND IS NO LONGER DEPENDENT ON THE SAIPAN COMPUTER TO PROCESS THE PAYROLL CHECKS AND PRODUCE MONTHLY FINANCIAL STATEMENTS. THE NEW FINANCIAL SYSTEM IS OPERATED BY LOCAL PERSONNEL.

A TEAM OF FOUR MANAGEMENT SPECIALISTS FROM THE DEPARTMENT OF INTERIOR HAS COMPLETED THEIR ON-SITE EVALUATION OF THE OPERATIONS COSTS OF THE GOVERNMENT OF THE REPUBLIC. THEY HAVE PREPARED A REPORT RECOMMENDING IMPLEMENTATION OF CHANGES IN THE ORGANIZATION OF THE GOVERNMENT.

WE ARE NOW IN THE PROCESS OF CREATING A TASK FORCE CONSISTING OF MEMEBERS OF THE OBIIL ERA KELULAU, JUDICIARY, EXECUTIVE BRANCHES AND THE CIVIL SERVICE BOARD TO WORK TOGETHER IN A EFFORT TO FIND THE MOST EQUITABLE WAY TO REDUCE GOVERNMENT COST WITHOUT DISRUPTING THE NATIONAL ECONOMY. IT SHOULD BE MADE CLEAR THAT, IN ORDER TO REDUCE THE EXISTING GOVERNMENT PAYROLL, WE MUST FIND EQUIVALENT SOURCES OF INCOME ELSEWHERE TO MAKE UP THE LOSS IN TAXES IN ORDER TO MAINTAIN OUR ECONOMIC EQUILIBRIUM. IT IS OUR POSITION THAT THE EXISTING GOVERNMENT WORK FORCE MUST NOT BE REDUCED WITHOUT FIRST FINDING JOBS IN THE PRIVATE SECTOR TO ABSORB THESE PEOPLE SO THAT THEY MAY CONTINUE TO EARN A LIVING AND CONTINUE TO SUPPORT THEIR FAMILIES.

ALTHOUGH WE HAVE MADE IMPROVEMENTS IN THE COLLECITON OF OUR LOCAL REVENUES, THE DEPARTMENT OF INTERIOR GRANT FOR OPERATIONS HAS REMAINED AT THE ABOUT THE SAME LEVEL FOR THE PAST FOUR YEARS IN SPITE OF INCREASED SALARY COST. THE SALARY COSTS HAVE BEEN

ABSORBED WITHIN THE GOVERNMENT BY CUTTING COSTS IN OTHER AREAS. RECORDS SHOW THAT WE HAVE REDUCED COSTS IN CAR AND BOAT RENTALS. WE HAVE ALSO REDUCED COSTS IN TRAVEL, PROCUREMENT OF EQUIPMENT AND SUPPLIES, AND FUEL CONSUMPTION FOR VEHICLES AND BOATS. THE SAVINGS FROM THESE, HOWEVER, ARE INSIGNIFICANT AND THEY DO NOT OFFSET INCREASING COSTS OF GOVERNMENT.

OUR NATIONAL TREASURY IS CURRENTLY FACING A SERIOUS CASH SHORTAGE IN MEETING PAYROLL AND TO ACCOMMODATE STATE GOVERNMENT NEEDS. WE ARE CURRENTLY BORROWING MONEY FROM THE BANK FROM PAYDAY TO PAYDAY. THIS IS A VERY COSTLY PRACTICE AND MUST NOT BE CONTINUED. AS OF NOW, THE REPUBLIC OF PALAU DOES NOT HAVE FUNDING FOR THE FOURTH QUARTER OF FISCAL YEAR 1984. WE ARE SEEKING CIP FUNDS FROM THIS CONGRESS TO AUTHORIZE US TO REPROGRAM SOME CIP FUNDS TO OPERATIONS UNTIL WE COME UP WITH A TAX BILL TO GENERATE MORE REVENUES. ALTHOUGH WE FULLY UNDERSTAND THE DEPARTMENT OF INTERIOR'S POSITION ON THIS MATTER, WE FEEL WE MUST FIRST EXHAUST FUNDS APPROPRIATED BY THIS CONGRESS FOR FISCAL YEAR 1984 FOR PALAU BEFORE WE TURN TO LOANS FROM COMMERCIAL SOURCES IN ORDER TO MINIMIZE INTEREST COSTS.

OUR FISCAL YEAR 1985 BUDGET REQUEST IS NO MORE THAN A CONTINUATION OF WHAT WE REQUESTED LAST YEAR BUT WERE UNABLE TO RECEIVE DUE TO BUDGETARY CONSTRAINTS. WHILE WE FULLY APPRECIATE AND SHARE THE CONCERN OF EVERYONE REGARDING THE ECONOMIC CONDITIONS OF THE UNITED STATES, SOME OF OUR NEEDS DEAL WITH HUMAN LIVES AND MUST BE ACCOMMODATED WITHOUT FURTHER DELAY.

FIRST AND FOREMOST IS OUR ELECTRIC POWER GENERATION PROBLEM. WE WERE VERY DISAPPOINTED, RECENTLY, TO LEARN FROM THE HIGH COMMISSIONER'S OFFICE THAT THE \$4.5 MILLION APPROPRIATED BY THIS CONGRESS LAST FISCAL YEAR FOR UPGRADING THE MALAKAL POWER PLANT IN KOROR HAS BEEN REPROGRAMMED AND IS NO LONGER AVAILABLE TO PALAU. WE REALIZE THAT THESE FUNDS WERE APPROPRIATED AS AN OPTION TO ANOTHER PROPOSAL BY A BRITISH FIRM AND SINCE WE DID NOT USE THE FUNDS, THEY WERE REPROGRAMMED. HOWEVER, WE HAVE AN IMMEDIATE AND VERY CRITICAL NEED FOR ASSISTANCE IN REHABILITATING OUR KOROR POWER PLANT AS IT MUST PROVIDE POWER FOR AT LEAST TWO YEARS.

THE POWER SITUATION IN PALAU AT THIS VERY MOMENT IS MOST CRITICAL IN THAT OF THE CURRENT PEAK DEMAND OF 4 MEGAWATTS, THE MALAKAL POWER PLANT CAN ONLY SUPPLY, AT BEST, 2 MEGAWATTS DUE TO RECENT MAJOR FAILURES OF CERTAIN VERY OLD POWER GENERATING EQUIPMENT WHICH ARE NO LONGER ECONOMICAL TO REPAIR AND OPERATE. AT THIS VERY MOMENT POWER IS RATIONED WITH POWER OUTAGES IN THE VARIOUS AREAS OF KOROR AND AIRAI STATES RANGING FROM TWO TO EIGHT HOURS DURATION. THIS PRACTICE IS CAUSING SERIOUS PROBLEMS SUCH AS LOSSES OF REFRIGERATED FOOD ITEMS, DISRUPTION OF PRIVATE BUSINESSES, OPERATIONS OF IMPORTANT GOVERNMENTAL INSTITUTIONS SUCH AS THE HOSPITAL, SCHOOLS, THE GENERAL GOVERNMENT OPERATION AND THE OPERATION OF OTHER UTILITIES WHICH ARE DEPENDENT ON ELECTRIC POWER SUCH AS THE WATER AND SEWER SYSTEMS. WE NEED \$1,500,000 TO PURCHASE TWO 2,500 KW UNITS AND TO REHABILITATE THE EXISTING UNITS. WE ARE WORKING CLOSELY WITH TIA TECHNICAL ASSISTANCE TO MAKE THE NECESSARY IMPROVEMENTS. IN ADDITION, WE NEED \$500,000 TO PROVIDE POWER ON THE ISLANDS OF ANGUAR AND PELILIU. BOTH OF THESE ISLANDS HAVE POPULATIONS OF 1000 PEOPLE AND ARE IN CRITICAL NEED FOR DEPENDABLE POWER. THERE ARE SEVERAL GROUPS INTERESTED IN BUILDING HOTELS AND TOURIST FACILITIES IF WE CAN DEVELOP THE POWER. THESE ISLANDS WILL NOT BE SERVED BY THE NEW POWER PLANT IN KOROR.

IT IS ONLY WITH YOUR HELP THAT EXISTING POWER PROBLEMS IN THE REPUBLIC OF PALAU CAN BE IMMEDIATELY RESOLVED. WE, THEREFORE, RESPECTFULLY URGE YOU TO RESTORE BACK TO THE REPUBLIC OF PALAU THE \$4.5 MILLION SO GENEROUSLY APPROPRIATED BY THIS CONGRESS LAST FISCAL YEAR FOR THE UPGRADING OF THE MALAKAL POWER PLANT. THE RESTORATION OF THESE FUNDS WILL SOLVE OUR POWER PROBLEM FOR THE NEXT THREE YEARS UNTIL OUR NEW COMMERCIAL POWER PLANT BECOMES FULLY OPERATIONAL.

SECONDLY, WE ARE REQUESTING \$18,000,000 FOR THE CONSTRUCTION, EQUIPPING AND FURNISHING OF THE PROPOSED PALAU NATIONAL HOSPITAL, THE DESIGN OF WHICH IS DUE TO BE COMPLETED IN JULY OF THIS YEAR, FINANCED WITH THE \$480,000 APPROPRIATED BY THIS CONGRESS IN FISCAL YEAR 1982. WE WOULD LIKE TO REPORT TO THIS COMMITTEE THAT THE \$480,000 APPROPRIATED IN FISCAL YEAR 1982 FOR THE RENOVATION OF CERTAIN FACILITIES OF THE EXISTING MACDONALD HOSPITAL HAS BEEN

APPLIED AND THIS PROJECT IS SCHEDULED TO BE COMPLETED IN NOVEMBER OF THIS YEAR.

THIRDLY, WE ARE REQUESTING \$3 MILLION FOR SPECIAL OPERATIONS AND MAINTENANCE FUNDS FOR FACILITIES, ROADS, DOCKS, AIRPORTS, EQUIPMENT, WATER SYSTEMS, SEWER SYSTEMS, AND POWER DISTRIBUTION SYSTEMS. LAST FISCAL YEAR OUR SHARE OF THE SPECIAL OPERATIONS AND MAINTENANCE FUNDS WERE LESS THAN \$1 MILLION AND IS SHORT OF OUR NEEDS. THIS INCREASED AMOUNT WILL ENABLE US TO GRADUATE FROM A "BAND AID" TO A FULLY PREVENTIVE MODE OF OPERATION AND MAINTENANCE PROGRAM SO THAT OUR FACILITIES, UTILITY SYSTEMS AND EQUIPMENT CAN BE PRESERVED FOR LONGER TERM USES.

FOURTH, WE ARE REQUESTING \$6 MILLION FOR ADDITIONAL ROAD FUNDS TO COMPLETE THE PAVING OF KOROR ROADS. \$1.5 MILLION OF THESE FUNDS IS TO COVER THE SHORT-FALL IN THE CURRENT PALAU ROADS PHASE III PROJECT DUE TO UNFORSEEN NEED TO REPLACE A BADLY DETERIORATING SEAWALL ALONG T-DOCK CAUSEWAY, PROVIDING EXTENSIVE UNDERDRAINAGE SYSTEM TO RELIEVE A HIGH WATER TABLE SITUATION AT THE HARRIS ELEMENTARY SCHOOL/EMAUS HIGH SCHOOL ACCESS ROAD, EXTENSION OF SEWER LATERALS OUTSIDE OF ROADWAYS MISSED IN PREVIOUS CIP SEWER PROJECTS AND CONSTRUCTION OF ADDITIONAL DRAINAGE STRUCTURES/SYSTEMS FOR PROTECTION OF ALREADY PAVED ROADS. THE REST OF THE MONEY IS FOR THE COMPLETION OF ROAD IMPROVEMENTS IN KOROR STATE, INCLUDING PAVEMENT, DRAINAGE SYSTEMS, AND RAILINGS FOR CERTAIN ROAD SECTIONS WHICH HAVE CAUSED DEATHS OF TEN PEOPLE AND NUMEROUS VEHICULAR ACCIDENTS.

FIFTH, WE ARE REQUESTING \$6 MILLION FOR THE DESIGN AND CONSTRUCTION OF RURAL ROADS (FARM ROADS) IN THE OUTER STATES OF PALAU. THE OBJECTIVE OF THIS RURAL ROAD CONSTRUCTION PROGRAM IS TO PROVIDE ACCESS ROADS TO APPROXIMATELY 10,000 ACRES OF COCONUT, FORESTRY, AND GENERAL AGRICULTURE LANDS ON THE ISLANDS OF BABETHAUP, PELILIU, ANGUAR, KAYANGEL AND OTHER SMALLER ISLANDS.

AS ENVISIONED, THIS PROGRAM WILL PROVIDE INCENTIVES TO A GOOD NUMBER OF PRESENTLY UNEMPLOYED PALAUANS TO RETURN FROM CONGESTED KOROR BACK TO THEIR OWN MUNICIPALITIES TO PARTICIPATE IN THE CONSTRUCTION OF THESE ROADS AND ENGAGE IN THE CLEARING OF LANDS, CULTIVATION OF COCONUTS, TIMBER TREES AND CROPS PRODUCTION.

THROUGH A GRANT AID FROM THE GOVERNMENT OF JAPAN, PALAU HAS RECENTLY RECEIVED ROAD CONSTRUCTION EQUIPMENT AND FARM MACHINERY TOTALING \$1 MILLION IN VALUE. FUNDS REQUESTED HEREWITH WILL SUPPLEMENT THE AID ASSISTANCE FROM JAPAN AND WILL BE UTILIZED FOR PROCUREMENT OF ADDITIONAL EQUIPMENT, MATERIALS AND LABOR.

SIXTH, WE ARE REQUESTING \$5,620,000 TO FUND CERTAIN SHORTFALL IN CURRENT KOROR SATELLITE SEWER SYSTEM PROJECT AND TO INITIATE DESIGN AND CONSTRUCTION OF A SANITARY SYSTEM FOR ARKABESANG AREA OF KOROR STATE, HOME OF 2,000 PEOPLE, AND SITE OF AN ELEMENTARY SCHOOL, ADMINISTRATION FACILITIES, COMMUNICATION STATION, A 170-ROOM HOTEL PRESENTLY UNDER CONSTRUCTION AND A 100-ROOM HOTEL PRESENTLY UNDER PLANNING.

SEVENTH, THE REPUBLIC OF PALAU HAS RECEIVED A BILL OF \$900,000 FROM THE DEPARTMENT OF INTERIOR FOR MEDICAL REFERRAL WITH A LETTER ASKING FOR SETTLEMENT ARRANGEMENT. WE HAVE NO FUNDS TO COVER THIS BILL AND WE ARE REQUESTING ASSISTANCE OF \$1 MILLION FROM THE CONGRESS TO COVER THESE COSTS.

EIGHTH, THE REPUBLIC OF PALAU IS INDEED COMMITTED TO PURSUING ECONOMIC DEVELOPMENT AS ITS ONLY ALTERNATIVE AGAINST THE REDUCTIONS IN VARIOUS FEDERAL GRANTS. THE PALAU NATIONAL DEVELOPMENT BANK HAS PENDING APPLICATIONS VALUED AT OVER \$1 MILLION FOR WHICH THERE ARE NO FUNDS TO PROCESS. THUS, WE RESPECTFULLY URGE YOU TO LOOK FAVORABLE UPON FUNDING THIS ACTIVITY.

NINTH, WE UNDERSTAND THAT THE HOUSE INTERIOR AND INSULAR AFFAIRS COMMITTEE RECOMMENDED \$15,000,000 FOR PRIOR YEAR SERVICE BENEFITS. WE JOIN THE GOVERNMENTS OF THE COMMONWEALTH OF THE NORTHERN MARIANAS, FEDERATED STATES OF MICRONESIA, AND THE MARSHALL ISLANDS IN SUPPORTING THE PROGRAM.

IN ADDITION, THE DEPARTMENT OF THE INTERIOR, IN THEIR MANAGEMENT STUDY OF THE EXECUTIVE BRANCH RECOMMENDED A REDUCTION OF THE NUMBER OF GOVERNMENT EMPLOYEES. WE WOULD BE ABLE TO REDUCE THE NUMBER OF EMPLOYEES EFFECTIVELY BY A RETIREMENT PROGRAM. WE ARE REQUESTING \$500,000 AS SEED MONEY TO INITIATE THE PROGRAM.

MR. CHAIRMAN, THESE MAJOR AREAS OF CONCERN TO US AT THIS TIME ARE REAL AND WE TRUST YOUR COMMITTEE WILL GIVE THEM DUE CONSIDERATION.

REPUBLIC OF PALAU
 FY 1985 PROPOSED BUDGET ADD-ONS
 (\$000)

<u>ACTIVITY</u>	<u>REAGAN'S BUDGET REQUEST</u>	<u>REPUBLIC OF PALAU'S PROPOSED BUDGET ADD-ONS</u>	<u>REVISED BUDGET REQUEST OF PALAU</u>
I. Operations	\$10,600	\$ -0-	\$10,600
I. Special Programs			
A. Transition (Retirement Fund)	- - -	500	500
B. Technical Assistance (Land Boundaries)	- - -	500	500
C. Medical Referral	- - -	1,000	1,000
D. Enhanced O&M	- - -	<u>3,000</u>	<u>3,000</u>
Subtotal	\$10,600	5,000	5,000
I. CIP	<u>2,600</u>	<u>40,200</u>	<u>42,800</u>
TOTAL	\$13,200	\$45,200	\$58,400

REPUBLIC OF PALAU

FY 1985 CIP ADD-ONS

<u>Program</u>	<u>Original FY 1985 Estimate</u>	<u>Add-Ons Amount</u>	<u>Total Request</u>
1. Construction of New Hospital	\$ -0-	\$18,000	\$18,000
2. Koror Road Shortfall	-0-	6,000	6,000
3. Agriculture Roads	-0-	6,000	6,000
4. Palau Sewer System Shortfall	-0-	5,700	5,700
5. Koror Power Upgrade	-0-	4,500	4,500
6. Capitol Relocation	<u>2,600</u>	<u>-0-</u>	<u>2,600</u>
Total	\$ 2,600	\$40,200	\$42,800

ADDITIONAL FUNDING REQUESTS

Minister WILLTER. I will briefly go through the budget requests for 1985 which we are asking over and above the request submitted by the Department of the Interior.

Essentially our request for 1985 is the same as what we requested last year and those we did not receive. In the area of our operations, we are requesting \$500,000 for a Land Boundaries Program which will help us to identify the boundaries in Palau.

Currently, it's very difficult to pursue economic development because of the complicated land problems. We are requesting \$500,000 to start a Retirement Program which we feel is necessary in order to reduce the size of the government for those people who have worked for the government since the Navy time and are not old and have no Retirement Program, and we are faced with the difficulty of trying to get them out of the government.

We are also requesting approximately \$1 million for outstanding bills which are now and we are unable to come up with the funds to pay for these bills.

We are also requesting \$3 million to be used on the enhanced O&M Program which is very badly needed for the maintenance of the infrastructures which are currently in place and those which are expected to be completed. We would like to also support the program of prior service benefits which has been identified as one of the potential problems after the compact comes into effect, which we in Palau would not be able to fund.

We have the CIP programs which I would like to, at this point in time, ask Minister Wong to outline our needs for, and I feel we have an urgent need for power at this point in time, and I would like for Mr. Wong to explain further this program.

Minister WONG. Thank you. Mr. Chairman, first of all at the present we are rationing power. At this very moment, our demand for power is 4 megawatts. We are producing 2 megawatts.

The range of power rationing from 2 to 8 hours and we need your help to give us funds to correct our power situation.

The second CIP that we would like to request money for is our new hospital. We are the only district in Micronesia without a new hospital. We are asking \$18 million for that; \$3 million for equipment and furnishings, and \$15 million for construction.

In Koror State, this is the administrative and commercial center, there are some roads that need to be improved. We are asking \$6 million for that.

Babelthap is the second largest land mass in Micronesia next to Guam and we need to develop roads so that we can increase agricultural products from that island. We also are asking for sewer money to develop sewer systems in Koror State.

With respect to capitol redevelopment, we are also asking for support of \$2.6 million for the program. We appreciate very much your attention to entertain our requests. Thank you.

COMMENTS FROM THE DELEGATE FROM THE CONGRESS OF PALAU

Minister WILLTER. Mr. Chairman, I have to my right Delegate Reklai from the National Congress of Palau. I would like to ask for a few minutes for him to say something.

Senator JOHNSTON. Yes.

Delegate REKLAI. Thank you, Mr. Chairman, for this opportunity to appear before your committee. In the National Congress of the Republic of Palau it is in a position to support all the requests prepared by the executive branch of our government, especially in the CIP programs where we can start our economic development, and especially in the Bablethaup area, as well as other areas of the islands.

We are really in a position where our government is still young. This year is going to be a good year, and we feel like we have faced a lot of problems ever since we started this government. Of course, your committee has been very helpful to us for the past several years.

I can see that you are of real assistance to us. We are in a very bad position for the government of a nation.

I thank you very much for this opportunity.

Senator JOHNSTON. Thank you.

Minister WILLTER. Mr. Chairman, we are ready to answer any questions.

Senator JOHNSTON. We will have some questions in writing, Mr. Willter. We would like to thank you and thank all of the witnesses this afternoon for having been here and for submitting not only their oral but their written statements.

We can assure you that both the Senators and the staff will very carefully consider all of the written statements from all of the witnesses this afternoon as well as your oral statements, as well as our informal session comments this afternoon. We are well aware of your needs.

We understand that in order for you to be able to grow—and that's not only in Palau, but in each area—you must have your basic infrastructure; and basically that is what we're talking about with Palau as well as the others this afternoon, the basic infrastructure.

So I thank you again.

ADDITIONAL COMMITTEE QUESTIONS

Senator JOHNSTON. All the committee questions that were referred to earlier will be inserted in the record.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

GUAM

Question: The funds appropriated were considered to be full funding for the project. Does it appear at this time that the \$11.35 million will be enough or is it likely additional appropriations will become necessary?

Answer: OTIA

We also consider the \$11.35 million to be full funding for the project and do not believe additional appropriations will be necessary. In our presolicitation meetings and briefings in Guam, some concerns and issues have been raised that may affect the ultimate price. This is not necessarily unusual for this large a project. One issue is the temporary (during construction) and final relocation of utility lines. The design assumes that power lines will be placed underground. This was not included in the original project scope but the Guam Power Authority (GPA) has now included funds for burying the power lines in its 1985 capital budget. There is still a problem of including enough money in the project budget for temporary relocation of power lines during construction. Lines must be temporarily relocated for as long as two years and concerns over the costs involved has been relayed by the Guam Power Authority to Guam Public Works, the project overseers.

There is also a problem that there are existing Navy power lines and the eventual site of the underground GPA lines is a Navy owned easement. Use of this easement must be negotiated with the Navy.

Finally, the Department of Public Works has indicated a concern over the cost of the preferred design. The preferred design includes construction of cloverleaf-type road intersections, a more expensive option than continuing the present system of traffic signals. Guam intends to put both designs out for solicitation so that they will have a range of options and prices when the bids come in. This should give them the capability of funding the project within budget or seeking means of local financing if they decide to go with a more expensive option.

Answer: Government of Guam

Tumon Bay construction is still in the design phase which is about 60 percent completed. Public hearings for the project have been completed without major obstacles. The expected completion date as per construction schedule is January, 1986. The Department of the Interior has a copy of the schedule. Construction is expected to start as planned. However, there is a major problem concerning the funding for land acquisition needed prior to the start of construction. The Department of Public Works (DPW) estimates funding for the basic design of the boulevard to be about 500,000 U.S. dollars which is not included in the grant. If the rotary and bi-level road concept is incorporated in the construction, another 500,000 U.S. dollars would be needed for land acquisition. For basic design, the original grant amount of 11.35 million dollars should suffice. However, if the rotary and bi-level road intersection concept is constructed, another 5 million to 6 million U.S. dollars would be required to complete development of Tumon Bay. This would mean a total investment of between 16 million and 17 million U.S. dollars for the project.

Question: You have requested no Guam construction funds for fiscal year 1985, yet there are certainly a number of projects which the government of Guam considers of high priority. Among them are completion of the penitentiary, renovation of the hospital, and improvement to the Guam water system. In your opinion, how important are each of these and other identified construction projects? In terms of priorities, what order of importance would you place on each project?

Answer: OTIA

All of these projects are important. The penitentiary has a \$2.3 million shortfall that must be paid before the facility can be used, even though it is 98% complete. We believe the additional funding for current construction can be paid for through a reprogramming. Any further additions to the penitentiary, including space for another 48 prisoners, would be a very low priority when compared to projects such as the water system and the hospital.

The water system needs immediate improvements particularly in the transmission of water to southern Guam. We have tried to provide immediate help through a series of reprogrammings. Whether this will be sufficient to ease immediate problems is difficult to evaluate. We have a water expert from the Department's Bureau of Reclamation on site in Guam now. We have offered additional experts to review the water situation, work with the Palau Utility Agency of Guam, and help re-write the water master plan. Until that is completed, we believe it is premature to fund the major or long range improvements that are included in the Guam request.

Improving the hospital facilities and restoring its accreditation are of the highest priority. While we believe that short term hospital care is generally good in Guam and there is no imminent threat to human life caused by disrepair to the hospital, there is a real need for improvements to the facilities and overall health care capabilities. The plan now presented by the Government of Guam appears to meet these needs and will help the Guam Memorial Hospital restore its accreditation.

Question: With respect to the new penitentiary, the amount of the contract let for construction exceeded the appropriation by nearly 2 million dollars. Did the scope of work identified in the contract change considerably from what was originally planned, or did we simply miscalculate the amount necessary for construction?

Answer: OTIA

The intent of the original appropriation, which was agreed to by former Governor Calvo, was that Guam would provide a 25-percent matching share or approximately \$1.7 million. To the best of our knowledge the scope has not changed significantly from the original contract; but it was scaled down considerably from the original request, before a contract was let.

Answer: Government of Guam

Original request for the prison was based on the prison master plan which at the time of the request would have cost approximately 10 million plus U.S. dollars. However, due to federal funding limitation, only 6.5 million U.S. dollars was awarded to the prison which resulted in a downgrade in the scope of the contract. This downgrade in construction scope was the result of limited federal funds. Original request to Congress was for 10 million dollars which was presented in the congressional capability statement format by the previous administration.

Question: As considerable time has elapsed since the original appropriation was made and the contract was let, have the costs necessary to complete the facility as originally designed gone up? If, so by how much?

Answer: OTIA

The costs have increased to some extent. The Government of Guam is now approximately \$2.3 million short of meeting the contract cost, whereas, originally they were to pay only an additional \$1.7 million.

Answer: Government of Guam

Cost to complete the original design for the prison has gone up. For Government of Guam to construct the prison per the prison master plan, construction cost estimated for today is around 14.8 million dollars. This cost would entail those additional items other than collateral equipment noted in the Depc. of Corrections' request for Interior supplemental funding. Please refer to 5-year CIP package.

Question: Are there subsequent changes or additions in the design of the penitentiary which you feel would be important or necessary to make now before completion of the facility? If so, please identify them.

Answer: OTIA

No, we believe the new facility will suffice as is. Although, the new facility is designed for only 74 inmates, and there is a current prison population in excess of 120, this problem can be resolved by doubling-up in cells or by continuing to use the better portions of the old facility. The Government of

Guam has proposed housing for an additional 48 prisoners at a cost of approximately \$1.3 million.

The Government of Guam has also requested approximately \$800,000 to renovate part of the old prison for academic and vocational programs. The current facilities should be adequate to conduct these programs.

Answer: Government of Guam

There were no changes or additions to the design of the Penitentiary. The Department of Corrections has requested assistance for the purchase of collateral equipment to assure the complete effectiveness of the facility.

The attached Schedule A shows a list of facilities that the master plan for the Penitentiary included. (See Appendix A)

With the original \$6.5 million we were able to contract for the construction of item nos. 2, 4, 8, 10, 12 and parts of no. 15. Please note that the cost of this phase of the project totalled \$8.3 million. We hoped to cover this overexpenditure by either receiving approval of a \$1.7 million reprogramming request or receiving the additional appropriation requested in Governor Bordallo's testimony. This option will be discussed further in this answer.

The House Insular Affairs Subcommittee has recommended the authorization of \$4.1 million. The Department of Corrections was asked to provide a prioritized listing of its needs within this ceiling. The response from the Department of Corrections, as listed in Governor Bordallo's testimony, is as follows:

A. Administration Building	\$ 453,494
B. House Unit - Male (48 capacity)	1,278,072
C. Renovation (academic and vocational programs)	775,256
D. Gym/Auditorium	905,799
E. Contract - Administration	290,000
F. Material Testing	34,800
G. Contingency	373,742
SUBTOTAL	\$4,111,163
Overexpenditure	2,300,000
TOTAL	\$6,411,163
	or \$6.5 million

Governor Bordallo requested an additional \$2.3 million to cover the current overexpenditure. This appropriation would be necessary if the Government of Guam's reprogramming requests are not approved.

If the reprogramming request is approved, the \$2.3 million can be used to construct and purchase the following:

A. Housing Unit - Male Bldg. (D-2)	\$1,142,852
B. Housing Unit - Female Relocation (12 inmates)	62,350
C. Chain Link Security Fence	211,375
SUBTOTAL	\$1,416,577
D. Collateral Equipment	1,000,000
TOTAL	\$2,416,577

Please note that this revised listing would provide for the construction and purchase of all of the Penitentiary buildings and equipment, except for the following:

A. Prison Chapel Building	\$210,127
B. Halfway House Building	623,545
	\$833,672

Question: Please briefly characterize the condition of Guam's water system and identify the costs associated with any immediate or long-term needs to improve the system.

Answer: OTIA

There are actually three water systems on Guam, in addition to the public system generated by the Public Utility Agency of Guam (PUAG), there are also systems operated by the U.S. Navy and Air Force. The PUAG system is old and dates back to World War II.

For its source of water, it relies primarily on wells in northern Guam, although there are some wells in the southern and central portions of the island and some water is purchased from the Navy for use in southern Guam during the dry season.

The system has many problems. Most of them are associated with the systems age. Approximately 40 percent of the water in the system is lost or unaccounted for. This is due to leaks, unauthorized connections, malfunctioning meters, fire-fighting needs and pipeline flushing.

The transmission and distribution system is also not adequate to serve the island, particularly the drier areas in the south. In addition to leaks, there are many instances where new large diameter pipelines have been installed, but they still connect up with old small diameter water mains, resulting in bottlenecks and pressure problems in the system.

While it is too early to determine costs, the greatest immediate need is to complete the transmission and distribution system, particularly to improve the flow of water to the south. The Department now has a Bureau of Reclamation water expert stationed on Guam. OTIA has agreed to fund additional experts to work with the PUAG and update their water master plan. This project will take approximately one year to complete. We will keep the Subcommittee informed as the work progresses. We are also providing the Subcommittee with a "Planning Aid Document" prepared by the Bureau of Reclamation in March 1984.

Question: Please briefly explain for the Committee the current situation regarding the Guam Power Authority, including the outstanding loans, the power rates, and the relationship with the Department of the Navy.

What specifically is GPA doing in response to this situation and what has OTIA done to assist GPA?

Answer: Government of Guam

On March 21, 1984 GPA implemented a new rate schedule designed to yield an average of 26% additional revenues to the Authority. The rates were justified to accomplish the following:

1. Yield adequate revenues to pay the Federal Financing Bank interest payments of \$5,131,800 of which \$2,565,900 is due on June 30th and December 31st of each year.
2. Yield adequate revenues to deposit funds into an interest bearing sinking fund designed to generate the necessary \$36,000,000 in principal which is due on December 31, 1990. This amounts to \$3.7 million in revenues never before provided for.
3. Yield adequate revenues to fund necessary plant improvements, betterments, deferred maintenance and capital improvements. This portion of the rates are inclusive of the 1.50X debt service coverage ratio and were not utilized as a separate component of the rate base.
4. Yield adequate revenues for budgeted operations and maintenance and repair requirements.
5. Yield adequate revenues for payment of the revenue bonds, as well as, the required debt service coverage ratio.

The rates, as structured, assess the following percentage increases to each class of customer:

- A. Residential - an average increase of 18.5%
- B. Small Commercial - an average increase of 19-21%
- C. Large Commercial - an average increase of 16-19%
- D. Small Government - an average increase of 34%
- E. Large Government - an average increase of 30%

The differences between the rates, particularly those of government, stem from a 1979 ruling of the defunct Public Utilities Commission that required GPA to suppress rates assessed residential customers and to carry the difference to the government sector. The same ruling was issued relative to assessments on commercial accounts versus government accounts.

The rate schedule as passed should be adequate for a year or so, however, under instructions from the Legislature and the Ad Hoc Committee for rates, the rates must be monitored and a report submitted to officials every 90 days. This will afford the opportunity to GPA to make necessary adjustments, up or down, whenever consumption and revenues justify.

On the outstanding loans, GPA is presently servicing three loans. They are:

1. Federal Financing Bank Loan - The FFB loan is presently causing great problems for GPA. Because of the covenants of the Revenue Bonds the FFB loan can be serviced only after all operations and maintenance costs, as well as, service for the bonds, are provided for. The subordination of the FFB note to the Bank of America bonds simply means that, though the FFB note is the biggest obligation of GPA.

In January 1984 GPA was not able to pay the December 1983 interest installment of \$2.6 million. As a result the Department of the Interior impounded Section 30 funds to make the payment.

In June 1984 GPA will not be able to make the \$2.6 million interest payment and, again, Section 30 funds may be impounded. The impoundment of these funds is causing considerable problems with the cash flow of the Government of Guam which is experiencing increasing difficulties in making payments on its monthly power bills. At present the Governor of Guam is in arrears on its power bills to the tune of \$1.4 million.

At present GPA does not have any funds set aside for retirement of the principal of \$36 million. The new rates are designed to yield \$3.7 annually that will generate the needed \$36 million by 1990 when deposited in time certificates.

The total yield of the new rates for the FFB note is \$8.9 million which equates to approximately \$.02 per KWH or 15% of the customer power bill.

2. Revenue Bonds - Bank of America Trustee

GPA issued \$36 million worth of revenue bonds at rates varying between 6% to 7%. These bonds are scheduled to mature in the year 2007 and, at present approximately \$32 million are outstanding. Payments to these bonds are \$280,000 per month.

The biggest problem GPA is experiencing with the bonds is their classification by GPA's auditors that the Bonds are current liability. This classification was brought about by a notice of default issued against GPA by the Bond Trustee - the Bank of America -

It should be noted that the default notice was issued on four points:

1. The divestiture of GPA's rate - setting authority.
2. The possibility that debt service coverage would be inadequate under the rates set by P.L. 17-10.
3. The loss of autonomy
4. GPA's lack of action in fighting the Guam Legislature's roll back of rates.

The Bank still maintains a claim against GPA with the Attorney General of Guam, a claim filed in order to keep the avenues for default open. The Bank has informed GPA that it will withdraw its claim only upon certification that:

1. The autonomy and rate settling authority has been returned to GPA and cannot be withdrawn.
2. The new rates do provide adequate coverage for the bonds.
3. Guaranteed compliance with the covenants of the bond, particularly Sec. 5.01 dealing with the application of revenues.

3. GORCO note -

GPA is presently paying to the Government of Guam \$110,000 per month on an agreement to cover a GORCO tax debt. Between the years 1980 to 1982 GPA amassed an oil debt of \$13 million. The Authority was able to pay \$7 million of the debt and agreed to assume a GORCO tax liability of \$6 million.

4. Section 30 Repayment

The Board of Directors agreed to recognize the impoundment of Section 30 funds as a bonafide debt of the Authority. At present this would appear to be \$4.7 million. The Authority is looking to reimburse the Governor of Guam at the rate of \$250,000 per month beginning the first week of July.

In total, the monthly debt service requirement of GPA equates to:

1. For - FFB	\$ 741,666
2. For - Revenue Bonds	280,000
3. For - GORCO Note	110,000
4. For - Section 30 Repayment	250,000
	\$1,381,666

Question: With respect to ownership or control of the power distribution system, what is the current position of GPA and the Navy? What, if anything can and will OTIA do to resolve this matter? In your opinion, what action should the Congress take to resolve this matter in an appropriate fashion?

Answer: Government of Guam

The Navy has encouraged GPA in its efforts to get adequate rates and has respected its own obligation to currently pay for its share of the fuel oil bill. However, Navy's encouragement for increased rates, though argued as the need for the establishment of financial viability so that Navy could become a customer of GPA, was essentially lip service in that the condition of financial viability has "all of a sudden like" been shelved in favor of other arguments as to why the termination of the Power Pool should not be addressed.

Navy has been morally deficient in its attitude of not seeking a better financial fundamental policy for its public works activities on Guam. After governing Guam for 50 years and growing into the role of Godfather as to water, sewer, telephone, electric service and otherwise, and after the local people have begun to illustrate and exhibit their willingness and ability to assume these functions, Navy has resorted to an adversary attitude and position almost reflecting their belief that a recognition of the ability of the local people would be detrimental to the military mission. It boggles the mind why Navy would assume and actively defend an empire that they indicated, in 1950, they would be willing to relinquish. It is also an insult to the people of Guam that the Navy would assume and think that the local people were not capable of providing the services that they have encouraged the locals to develop.

The following facts should be known as to the level of development of the Guam Power Authority and should be reflective of the ability of GPA to provide the necessary services to provide reliable and stable electrical services to the military mission on Guam:

1. GPA has operated the Tanguisson Power Plant, which is jointly owned by the Navy and GPA, since it was the first built. Navy cannot deny that the plant has been operated and maintained to standards practiced by utilities on the Continental U.S. A major part of the Power Pool agreement is the turnover of the Tanguisson plant after successful operation for a set number of years. Many years have gone by with GPA successfully operating and maintaining the plant and Navy still refuses to honor its word of turnover.

2. GPA presently maintains the majority of the lines, including Navy lines, that traverse Guam and are not located on military bases. The underground lines from the Tanguisson plant have been maintained by GPA because Navy lacks the equipment to do so and GPA's personnel are more experienced and trained for such work. Service records of these claims can be provided.

3. GPA has operated the Cabras Island Power Plant in an efficient and economical manner. This can be verified by the records of breakdowns and by engineering certificates from independent surveyors. A recognition of this fact stems from the fact that GPA presently provides 58% of all power used on the island inclusive of the power requirements of the Navy and other military installations.

4. GPA has constructed a modern, computerized dispatch center, mainly at the encouragement of Navy and with the purpose of being able to take over control of the Islandwide Power System as alluded to in the Power Pool Agreement. When the DCC was finished and placed into operation the following things occurred:

5. Navy has refused to tie in their breakers, which would transfer control to that facility, unless GPA agrees to turnover supervision of such center to Navy Public Works Center (PWC). GPA has agreed to joint manning provided that such joint manning will have a cut-off date prior to which Navy will train GPA personnel in the dispatch of Navy power requirements and GPA will agree to employ Navy employees that will be dispatched with the turnover of control. An example of the attitude of Navy is their refusal to permit the inclusion of the Dispatch Control Center (DCC) facility in the power pool cost sharing scheme while GPA must recognize the cost of the Navy dispatching facility. Both facilities are utilized on the Islandwide system in a joint manner but Navy's attitude and argument is that GPA's facility charges should be prorated only when it is used on joint use lines. This is in direct contrast to the assessment of the full cost of the Navy facility despite the fact that there are periods of time when that facility only dispatches Navy power. As late as December of 1983, GPA has offered to discuss joint manning of the dispatch facility but Navy has refused such discussions if GPA is to be adamant about time frames and if GPA refuses to place the facility under the control and supervision of Navy personnel.

6. GPA spent \$5,000,000 to build the Dispatch Control Center. This is inclusive of a TRW SCADA computer which is state of the art for the controlling and dispatching of power requirements. Navy has recognized this fact and has requested that they be permitted to tie in their monitors to the computer so as to allow them to dispatch their own lines from the Navy dispatch center. This is reflective of Navy's attitude that they will do whatever is necessary to prevent the necessity of turnover of control.

In short, GPA exists and functions at the mercy of Navy. GPA would not be able to provide electrical service to the heaviest load areas without utilization of Navy transmission lines. With this hatchet Navy is able to successfully perpetuate the Agreement and prevent GPA from building a reliable system for its own customers. Several examples of this can be given:

As late as April 21, 1984, GPA wanted to award a contract for the hardening of a distribution system serving the greater commercial sector of Guam. Along with the hardening of this system, GPA would build an overbuilt transmission line which would enable GPA to remove its customers from a Navy transmission line therefore negating the need to charge the costs of such line to the power pool. Navy was able to stymie the building of such line by presenting arguments that GPA customers can be efficiently serviced using the Navy line. Yet, not one year earlier, when Navy knew that GPA could not afford to build such a line, Navy suggested to GPA that such a line should be built so that the Navy line could be maintained clean for defense purposes. This is an example of the vacillations of the Navy and their refusal to deal with GPA in good faith without periodic changes of policy and opinions.

The Moral Deficiency of Navy's policies and attitudes on the Island, specifically towards GPA, can be illustrated in many ways that would require a lengthy dissertation. It is better stated concisely that with its gigantic octopus-like organization stretching from PWC Guam, Navy has attempted to strangle the growth of GPA by its domination of the Power Pool and its lack of any meaningful actions towards reaching the end of the Power Pool and the accomplishment of the very intent of that agreement, i.e. the transfer of control of the Islandwide Power System and Navy becoming a customer of GPA. It should not come as a surprise however, because the Navy wrote and created the Power Pool and does not want to

see it terminated. Newly created GPA (1969) had little choice but to accept the terms and conditions of the Pool in 1972 - at that time Navy controlled everything. But conditions have changed:

1. GPA generates 85% of the power requirements on the Island at a price that is at least two times cheaper than Navy. The basic reason for this is Cabras Island Power Plant which GPA owns, had constructed, has maintained and operates in a manner that will stand the closest of scrutiny.

2. GPA presently owns a considerable amount of transmission facilities, including the only 115,000 volt transmission line on island. GPA also owns pole lines that are insulated for 115,000 volts which can be energized to such levels whenever the demands call for such. GPA owns and operates and maintains 90% of the distribution lines that feeds its customers. Very few GPA customers are fed by Navy lines. However, the heavy industrial areas are still dependent on Navy transmission lines, and that is the hammer that Navy holds over the Authority.

Navy's only argument can be summarized as follows: Navy lines, substations, and power plants (Tanguisson #1) were built with funds appropriated by the Congress of the United States, and hence, Navy says, the lines belong to the Navy so GPA and the people of Guam must pay the Navy for any use of any part of these lines. It appears to GPA that so long as any part of any line carries any quantity of electricity for non-military use, then that part should be considered surplus to defense purposes and hence should not be for military use only.

Navy gives lip service to terminating the Pool, but has yet to show any efforts towards reaching that goal. For example, referencing the aforementioned dispatch center, Amendment XIII to the Power Pool Agreement requires that GPA build the dispatch center. \$5 million and 3 years later, Navy has yet to foster any meaningful efforts to use the center as intended.

The Navy has informally admitted that the Pool is unfair under present conditions, but has refused any suggestions to correct such. Even when GPA pressed for negotiation sessions towards correcting such inequities, Navy set up a hostile and adversary camp geared toward any GPA moves.

GPA has felt for some time that the optimum Navy - GPA working plan, and this feeling is only because of Navy's refusal to deal in good faith, should follow the following guidelines:

1. Termination of the Power Pool immediately.
2. Navy should own and operate the Piti, Agana and Orote power plants as well as the diesels located on the various military-bases.
3. Tanguisson #1 should be turned over (ownership and control) to GPA which has proven its ability to operate and maintain the facility.
4. A contract should be written between Navy and GPA wherein Navy would purchase a minimum of 85% of its power requirements from GPA at a price negotiated between Navy and GPA.
5. If GPA should ever require power from the Navy units, such as during overhaul, GPA would purchase such from Navy at the same price as Navy purchases power from GPA.

It is felt by GPA that this arrangement would:

- a. yield the lowest unit cost to both GPA and Navy
- b. keep all units operable, if Navy chooses, without overburdening GPA with the horrendous cost of maintaining aged units which are used only 15% of the time.
- c. allow Navy all the freedom it requires to maintain, upgrade and operate Piti power plant without burdening the people of Guam with such costs.
- d. allow Navy all the leeway it needs for its spinning reserve requirements, if GPA should not agree on the levels, without burdening the people of Guam with such costs.

Congress should evaluate the overall situation between Navy and GPA and it is the feeling of GPA that should such an evaluation take place the following will be noted:

1. GPA is capable of operating an efficient, reliable and stable system at lower costs than Navy.
2. GPA can and will provide power to the defense facilities with adequate priority given those facilities that are critical. (At present Navy treats off-base housing units as critical defense related facilities)

GPA feels that when Congress understands this problem, Congress will signal the Navy to work toward the accomplishment of the aforementioned five point plan. Furthermore, GPA feels that Congress will see the desirability of legislation that would accomplish those five points. GPA also feels that the Office of Territorial and International Affairs would be the appropriate agency to designate as the arbiter for any service and electrical supply contracts to be negotiated between GPA and Navy.

In summary GPA wants to be given the opportunity to grow into the utility that it can be. This cannot happen with the burden of the power pool of the Authority. If GPA is not permitted to grow there will be a real burden on the rate of development of the Island and the problems the Authority has been experiencing will continue. Ultimately, it is foreseen that if this scenario can be carried out and made possible, when Navy becomes a customer of GPA, Navy will be provided the reliable service it needs, it will pay an equitable and fair price for such service, and no longer will Navy be blamed for the financial difficulties being experienced by GPA.

VIRGIN ISLANDS

Question: Just as with Guam, you have requested no construction funds for the Virgin Islands. As they, too, have identified a number of high priority projects, for what reasons are you not requesting construction funds this year? In your opinion, what are the priority needs of the Virgin Islands?

Answer: OTIA

The Virgin Islands did not submit an FY 1985 budget request to the Office of Territorial and International Affairs. As a result, we were not aware of the specific projects identified to Congress or the priorities attached to them, and we did not include construction funds for the V.I. in our budget request as none were submitted for our consideration. Irrespective of this, we believe that the V.I. is capable of funding many of their projects through the private sector and should be encouraged to pursue this avenue as the primary means of financing capital improvements. To this end, our office, in conjunction with V.I. Congressman DeLugo, recently sponsored a Caribbean Basin Initiative Conference in St. Thomas and St. Croix, the specific purpose of which was to encourage private sector investment in the islands.

Of the construction projects identified by the V.I., we are very much in support of the ongoing and planned improvements at the St. Thomas and St. Croix airports funded by the Federal Aviation Administration. These improvements should be a major boost to island tourism, which is the mainstay of the V.I. economy. In the area of basic infrastructure, providing a reliable, efficient, and safe water and power system for the V.I. continues to be a high priority.

Question: Based on what you know today, what is your preliminary analysis of the water and power needs of the Virgin Islands, and what should we do to resolve this situation?

Answer: OTIA

In October 1983, representatives of the Department's Office of Territorial and International Affairs (OTIA) met in the Virgin Islands with officials of the V.I. Public Works Department and the Water and Power Authority. Meetings were also held with the Governor and his Cabinet.

The purpose of the meetings was to discuss water and power problems in the Virgin Islands, to determine the status of planned improvements to the water and power systems, and to discuss funding options and status of funds made available through Department of Interior grants.

At the October meetings, a comprehensive plan for water system improvements in the Virgin Islands through the year 2000 was presented as substantially complete. The plan was the product of a study conducted by CH2M Hill out of Miami, Florida, at the behest of the V.I. Government. In addition, the Department was informed that the most recent plan for power improvements in the Virgin Islands was under going revision and would be completed shortly.

Final recommendations for improvements to the V.I. water system based on the findings of the water study were provided to the Department and found to be satisfactory. A final plan and recommendations for power improvements were not provided.

In March 1984, the Department's Office of Territorial and International Affairs conducted its own on-site assessment of power problems, capabilities, and needs in the Virgin Islands. This report has now been finalized. In addition, the Department is working with the Virgin Islands Government on a financial assessment of the V.I. Water and Power Authority.

Following are the water improvement recommendations submitted to the Department and the power assessment conducted by the Department including executive summaries of each. Also included are the specific questions the Department is requiring be addressed in the financial study. (Appendix B)

WATER IMPROVEMENT PROGRAM EXECUTIVE SUMMARY

- ° V.I. Government had a comprehensive study of water problems and needs performed by CH2M Hill out of Miami, Florida.
- ° Major problems identified were extensive leakage, poor accountability of water, and poor operation of system due to low pressure.
- ° Leakage is the most serious problem. Estimates are that 30-40% of input is lost to leakage.
- ° Accountability of water used was only 40-45% in 1982 due to leakage, undocumented connections, and underreading of meters.
- ° Pressure for the system is derived from pumps in lieu of gravity. Storage is located too low for gravity distribution.
- ° It is estimated that \$3-4 million per year could be saved by reduced leakage and increased accountability and collection.
- ° Recommended improvements to the water system are broken down into two phases. Phase I consists of improvements designed to correct deficiencies in the present system and establish a sound base for future expansion. Phase I is planned to be completed by 1990 at an estimated cost of \$15.5 million. Phase II is a plan for future expansion of the system to serve the majority of the citizens in the V.I. It is planned to be completed by year 2000 at an estimated cost of \$9.8 million.
- ° Through grants from such agencies as DOI, EDA, HUD, and FHA, approximately \$7 million has been made available thus far for the Phase I 1990 plan.
- ° DOI, to date, has provided for a billing and collection study and design of a St. Thomas pipeline.

V.I. POWER ASSESSMENT EXECUTIVE SUMMARY (Appendix C)

Findings:

- ° Piecemeal construction of the St. Thomas and St. Croix power plants has resulted in a wide assortment of equipment sizes and types not always compatible with power demand, causing system inefficiencies and making it difficult to schedule and perform proper maintenance.
- ° The St. Thomas-St. John power plant has equipment capacity of 115.5 megawatts of power. Power demand ranges from a peak of 45 megawatts to a low of 18 megawatts.

- ° The St. Croix power plant has equipment capacity of 116.5 megawatts of power. Power demand ranges from a peak of 32 megawatts to a low of 17 megawatts.
- ° Transmission systems on St. Thomas and St. Croix are of radial design and are incapable of isolating power problems. Any interruption in the system causes major power outages due to a cascading effect.
- ° Maintenance of the transmission systems is not what it should be. Line crewman are used for line clearing in lieu of maintenance and repair.
- ° An underwater cable is the means by which power is transmitted from St. Thomas to St. John. The cable is old and in disrepair.
- ° The cost of power to consumers in the V.I. is \$.14 per kilowatt. This rate is not sufficient to cover operation and maintenance costs. Adding to the problem are poor billing and collection operations.
- ° The cost of water to Public Works does not include all of the power costs associated with water production.
- ° \$10 million of the originally planned \$28 million in power improvements have already been made by the V.I. Water and Power Authority (VIWAPA).
- ° VIWAPA estimates \$17 million is necessary to complete the planned power improvement program.
- ° VIWAPA believes that retirement of the \$8.5 million loan default will leave them financially solvent and capable of financing the improvement program.

Conclusions and Recommendations:

- ° St. Thomas and St. Croix power plants currently have sufficient capacity to meet power demand for several years.
- ° Further system improvements should focus on increasing efficiency and proper maintenance of the current system, in lieu of new equipment purchases.
- ° Equipment should be rebuilt and rehabilitated and heat recovery systems added to gas turbines. Introduction of combined cycle systems in both plants would maximize efficiency and allow proper maintenance of equipment.
- ° Transmission systems should be augmented by the addition of express feeder lines running parallel to existing systems to allow development of a modified loop system to better isolate power problems and alleviate extensive power outages.
- ° The underwater transmission cable between St. Thomas and St. John should be replaced.
- ° Line crewman should concentrate on maintenance and repair of the transmission systems. Other duties currently performed, such as line clearing, should be accomplished through other means such as contracting out.
- ° Proper water and power rates should be identified and the financial viability of VIWAPA assessed in the planned financial study.
- ° Operation and maintenance costs of the power system should be covered through the rate structure.
- ° Public Works should be held accountable for the power costs associated with the production of water.
- ° VIWAPA should continue to finance its improvement program to the extent possible.

- ° VIWAPA should try to resolve its \$8.5 million outstanding debt and become financially solvent. 1/
- ° Recommended improvements would require approximately \$15 million.

1/ The V.I. Government recently retired this debt for VIWAPA.

Question: For fiscal year 1984, some 1.5 million dollars was appropriated for the second of two juvenile detention centers. What is the current status of these two projects? When will they be completed and what are the estimated completion costs?

Answer: OTIA

Sites for the juvenile detention centers on St. Thomas and St. Croix have been selected and procured. The architect/engineer design contractor has been selected and schematics are in progress. The solicitation for construction is expected to be issued in July with contractor selection by the end of August. Actual construction is scheduled to begin in September and is expected to take 9 to 12 months to complete. At this time, it is difficult to estimate actual completion costs since the design is not yet complete and construction bids have not been received. A reasonable estimate should be available in August.

Question: Can the Virgin Islands get by with just these two new juvenile detention centers or will it still be necessary to construct a third facility? Will the Department support funding for a third facility, or does it believe that make funds available for this type of facility?

Answer: OTIA

According to the head of the V.I. Law Enforcement Planning Commission, who is spearheading the detention center projects, the two centers currently planned will meet the immediate needs of the V.I. A third center is not necessary or planned at this time. If a third facility should become necessary in the future, the Department would have to assess its position and various funding options at that time.

Question: What is the general condition of airport facilities in the Virgin Islands and what plan, if any, has been made to correct identified deficiencies? What costs are associated with correcting these deficiencies?

Answer: OTIA

Certain improvements need to be made to the airport facilities in the V.I. in order to accommodate larger aircraft and increase tourism incentives for the major airlines and the international community. The Federal Aviation Administration (FAA) has committed approximately \$53 million of 90 percent money for extension of the runway at the St. Thomas airport from 5,000 to 7,200 feet. The V.I. estimates that another \$15-16 million will be necessary to complete the project. To our knowledge, the FAA has made no commitment to the additional request and no other source of funds has been identified.

The V.I. also believes a new terminal building is needed at the St. Thomas airport. Negotiations for such a project are underway with a German firm. A figure of \$12 million has been mentioned.

The primary need at the St. Croix airport is extension of its runway to 10,000 feet. This could accommodate the oversized aircraft normally issued in international travel. This would allow the V.I. to break into a market that currently is closed to them. The FAA by formula gave the V.I. \$2.5 million in FY 1984. \$1.1 million of that sum is earmarked for St. Croix, though the intended purpose was not identified. To our knowledge, the V.I. has yet to file any of the required documents with the FAA on the St. Croix project. Thus, the FAA has made no commitment to it. The figure that has been mentioned in relation to the St. Croix runway extension is \$10 million.

The Department supports the funding of the airport projects by the FAA as a means to generate economic growth and development through increased tourism for the islands.

Question: If the United States can spend some 20 million dollars to complete construction of the airport and terminal facilities on Grenada, shouldn't we also consider improving the facilities in the Virgin Islands?

Answer: OTIA

The U.S. has been demonstrating its commitment to improving V.I. airport facilities for some time. The FAA has already committed \$53 million to the extension of the runway at the St. Thomas airport and also provides annual funds, calculated by formula, to the V.I. Port Authority, which has responsibility for V.I. airports, for use at its discretion. It is our understanding that the St. Thomas terminal building is being financed locally and that requirements for improvements to the St. Croix airport have not yet been properly filed with the FAA for their consideration.

AMERICAN SAMOA

Question: What is the current situation with respect to collecting tax revenues from the tuna canneries?

Answer: Government of American Samoa

Both tuna canneries are currently paying taxes to the American Samoa Government. Van Camp Company, which had not paid taxes to American Samoa since 1977, settled all of its prior years taxes last year, negotiated a tax exemption agreement with the government and began paying corporate taxes last year.

Question: With respect to controlling administrative costs of the government, it has been suggested that privatization of certain services would be beneficial. What is the Department's position on this concept?

Answer: OTIA

The Department is very supportive of efforts to move certain services being performed by the American Samoa Government to the private sector. It is a major goal of this Administration. We believe privatization has a dual and immediate benefit. First, it streamlines the government by eliminating a function that can be more efficiently operated in the private sector and may have even been a financial drain on the government. Second, it increases the tax base of the private economy and promotes further economic development. In June 1984, the Assistant Secretary for Territorial and International Affairs, accompanied by his Director of Technical Assistance and Special Assistant for Economic Development, will travel to American Samoa to meet with the Governor's blue ribbon commission on privatization. We believe that these meetings and subsequent follow-up will lead to a very positive and active privatization program in American Samoa.

Answer: Government of American Samoa

The Department of the Interior supports the privatization concept to the extent that it has offered, through the Technical Assistance Program, consultants to plan and organize the privatizing of the Meadow Gold Milk Producing Plant, the Marine Railway Authority, etc. The Governor has also called for the formation of a Blue Ribbon Commission on privatization which is scheduled to convene during the early part of June this year. The Assistant Secretary for OTIA is also involved in this effort.

Question: You indicate on page 23 of your justification that local revenues in FY 1985 are expected to decline for the second year in a row. Your operations budget request for FY 1985 is identical to last year's appropriated level, the end result being a net reduction in the American Samoa Government's operations budget. Will the government compensate for this reduction by improving governmental efficiencies, or will overall services be decreased?

Answer: Government of American Samoa

The preliminary local revenue estimates for FY 1985 were done during the fiscal year 1983 financial crisis. Because the national and local economies have relatively improved, it appears that revenue collections will likewise improve proportionately. However, our request for an additional \$2 to \$3 million for operations simply to maintain current service levels is imperative. Compounding the pressure on operations is the current public hearings by the NLRB on minimum wages which is estimated to cost the government anywhere between \$1.5 to \$1.6 million. The improved local revenue picture could accommodate the minimum wage requirements. However, if the \$2 to \$3 million request for operations is not granted, we may be forced to lay off 116 employees primarily in the areas of education and health care.

Answer: OTIA

The Government of American Samoa has stated that their FY 1985 revenue projection was prepared during a period of financial crisis. The estimate was influenced by the existing situation and was understated. Also the government, because of a \$7.1 million supplemental received at the end of FY 1983, was able to end that fiscal year by repaying the Department for misused capital improvement grants and still have a net operating surplus. FY 1984 should also end in a net surplus. During the financial crisis in FY 1983, the government instituted several cost saving increases to reduce the need for government staff and improve the efficiency of operations. These savings should be having a positive effect on reducing government spending in FY 1984 and FY 1985. The Department does not understand the statement by American Samoa that during a period of lower government revenues, reductions must be made in the most basic of government services, "education and health care."

The Department is concerned about the possible impact of an NLRB ruling which would force American Samoa to raise minimum wages. We will examine that issue to see if there is an administrative solution. If the minimum wage is increased, we are not certain that the impact would be as great as the \$1.5 million to \$1.6 million estimate submitted by the American Samoa government.

Question: For what specific reasons have local revenues declined, and what can the Department do to turn this downward trend around?

Answer: Government of American Samoa

The most unpredictable component of local revenues is corporate taxes. Excise taxes, individual income taxes and other revenues show consistent trends since 1971 and particularly between 1978 and 1983. The difficulty stems from the lack of data from the corporate entities with respect to their short and long term plans. The Department of the Interior can assist the government by providing intelligence information in this area. Additionally, the OTIA, through the Technical Assistance Program, has joint ventured with the ASG Planning and Budget Office a study of ASG's revenue forecasting methodology and the budget process in general. This project is completed and will be used in future budget formulations.

Answer: OTIA

The Department agrees with the Government of American Samoa that technical assistance can help forecasting and budgeting techniques. We are skeptical about the extent we can assist by providing intelligence data on specific U.S. corporations.

A major problem that American Samoa has is its strong dependency on the tuna canneries for tax revenues. Our program of privatization and economic development should help in this regard. By broadening the tax base, the Government becomes much less susceptible to sudden changes in tax revenue caused by what may be normal (or abnormal) income fluctuations in a single industry.

Question: How important is the marine railway system to enhancing these local revenues?

Answer: Government of American Samoa

The Marine Railway has the potential to become a major contributor to the local revenues with the completion of the new 3,000 Ton Railway and the acquisition of the necessary facilities and equipment required to service the larger vessels. By having a facility such as the new Marine Railway, the Tuna Fleet will be in an enhanced economic position by being able to offload and have their repairs, maintenance and supplies all in one place. In addition to the tuna fleet, there are many interisland vessels that the Marine Railway will be able to haul out with the new 3,000 Ton Railway. The services and skills the Marine Railway can offer will determine its economic impact on the local economy.

Answer: OTIA

The greatest asset and economic attraction of American Samoa is its excellent natural harbor. If the port and the economy of American Samoa are to flourish, it will be due to the territory's ability to attract and provide first rate facilities so that American Samoa can truly become the headquarters of the U.S. fishing fleet in the South Pacific and a major transshipment center. The marine railway is the key to this effort.

Question: How close to completion is the originally planned railway system? It is my understanding that to become a truly comprehensive marine service center a number of additional facilities and services will have to be made available. Please explain for the Committee what these additional facilities and services may include and what their associated costs would be.

Answer: Government of American Samoa

The 3,000 Ton Railway is 85% complete and is scheduled to be completed in October 1984. For the Marine Railway Authority to become a truly comprehensive Marine Service Center, expenditures of time and funds will be required. The size of vessels we will be capable of hauling are three to four times larger than our present customers, necessitating larger equipment than we presently have. Additional facilities and equipment include but are not limited to the following:

- | | |
|---|-------------|
| a. Berthing Facilities to repair nets,
electronic equipment, etc. - dredging needed | \$2,300,000 |
| b. Transportation equipment to handle 25 tons | 200,000 |
| c. Equipment and tools: 40 foot lathe, 20 foot lathes,
Radial drill 2 inch, Hydraulic press 100 tons,
Chain falls 3-6-10-15 tons, Pneumatic hand tools,
All compressor 1200 CPM, tower crane 30 tons, pipe
bender 2"-4", Electrical test equipment, Ventilation
blowers, Scaffolding frames, Hand tools, metric and
English, Micrometers, Calipcre, Press Brake 102",
Welding Machines, Hydro Blaster. | 1,250,000 |
| d. Training of personnel will be critically important
if the Marine Railway is to realize its potential | |
| | \$3,750,000 |

Answer: OTIA

The Department has not seen any greater detail on cost estimates for improving the marine railway than already provided above by the Government of American Samoa. We note that this estimate is \$450,000 higher than the estimate provided by the Governor in his testimony. We do believe that the estimate for berthing facilities is overstated by as much as \$800,000. Capital expenditures for auxiliary equipment tools and training should be left to private investment if and when the marine railway is sold.

Question: Is there any data which would indicate what additional revenues could be generated as a result of these marine railway system enhancements?

Answer: Government of American Samoa

Inquiries have been and continue to be made by the tuna fleet vessels, from the State of Kosrae, Australia, Fiji and other islands as to when the 3,000 Ton Railway will be completed, what our labor rates are and what services we can provide. We are centrally located and our labor rates are competitive. When the Transshipment Plan is realized, the number of vessels, potential customers, entering the harbor will increase. However, without the aforementioned equipment and training, the Marine Railway will not realize its potential.

Question: We have spent considerable time and money over the past two years to improve the power generation and distribution facilities in American Samoa. What is the current status of this system upgrade activity?

Answer: Government of American Samoa

The present system capacity has been upgraded to 26,000 KW from a system in 1982 that was not able to make peak load at 13,000 KW. With down time for maintenance, we are able to maintain 80 to 100 per cent backup. There is in place an Operator Training Program complete with operator manuals specifically for each generator. This was provided through a program of technical assistance with OTIA.

Question: In 1984, funds were provided to acquire two 3-megawatt gas turbine engines, and you have requested \$1,672,000 in FY 1985 to purchase heat recovery systems for these two new turbines. When are these turbines and heat recovery systems scheduled to be on-line?

Answer: Government of American Samoa

The contract for two (2) 3-megawatt turbines was let in March 1984. Schedule is to have these units on test by December 1984. The heat recovery system is in the 1985 budget and as a result must follow after money is granted.

Question: Your justification indicates the turbines will be used primarily as standby units. Wouldn't it be more cost effective to use these turbines as primary generation facilities? What additional efficiencies do you expect to achieve as a result of installing the heat recovery system?

Answer: Government of American Samoa

The standby mode was to allow ample time for proper maintenance of old diesel units which require more maintenance than newer units would. Yes, it will be more cost effective to operate turbines as base loaded units when the heat recovery system is installed. This system will have its own generation which will increase the efficiency of the turbine units to within and above slow-speed diesel units. The overall effect will be high reliability, extremely low maintenance, and down time; personnel reduction. This system will provide over fifty percent (50%) of our present needs with a yearly overall operation and maintenance savings of \$500,000.

Question: Because of the age and/or condition of some of the generation facilities, is it reasonable to assume we may need yet two more 3-megawatt gas turbine engines in the near future? If so, when would you project these might be necessary and what would be their expected cost?

Answer: Government of American Samoa

Our forecast was the system could be operated for five to ten years depending on load growth. Presently, due to heavy growth at Port Administration, Marine Railway, Canneries, Industrial Park, etc., we will be hard pressed in five years. By duplicating the turbine system in 1986, we would be able to achieve further yearly operational savings and reliability. Older diesel units could be retired. All operations could be from Tafuna Power Plant. The Satala Power Plant would be held as back-up making the Bay Area more acceptable from an environmental point of view. Cost in 1986 dollars, \$5,000,000.

Question: How many Corps of Engineers generators remain in American Samoa and how many of these are still in use?

Answer: Government of American Samoa

There are six Corp of Engineers generators. Three are being maintained for back-up. To bring these units back in "like-new" condition would cost in excess of three million dollars.

Question: In light of the cost of rehabilitating the Corp generators and in light of your somewhat restricted budget, do you really believe it is a wise expenditure to rehab these generators before returning them? Do you believe it is necessary for the Congress to involve itself in resolving this issue or can the Department and the Corp work out a responsible solution among themselves?

Answer: Government of American Samoa

The units were built in the early sixties and used in Vietnam. Returned to depot and rebuilt in 1967, nine units arrived in American Samoa in 1975. Three units were returned in 1978 and six remained until present. The rehab could not be effectively done in American Samoa. The houses over each unit must be completely replaced due to corrosion from salt air. All electrical control systems are completely outdated. The engines models are no longer in production, although parts are still available.

COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS

Question: In fiscal year 1983, the Congress provided \$10 million as the first of three roughly equal appropriations for the construction of a new hospital on Saipan. It is my understanding the Phase I-site preparation is now complete and that Phase II construction is just getting underway. Once construction is complete, the final phase will include the ordering and installation of all equipment. Based on the current situation, what do you expect the costs will be for all three phases as outlined? When do you expect construction will be completed, and when do you expect the hospital will formally open?

Answer: Government of NMI

Phase I is site preparation and is now about 95% complete; completion is anticipated for mid-May 1984.

Based on current construction progress, actual costs received during bidding, and contractual costs which are already included in Phase II contracts, including estimates being developed for equipment requirements, the total cost for all three phases will not be less than \$30 million, inclusive of telephone system and start up costs. All phases of construction, packages II - X, will be completed by August 31, 1985. The hospital is expected to be formally opened on October 1, 1985, one month after completion to allow movement and transfer of all operations, equipment, patients and staff personnel from the old hospital.

Question: With respect to operation of the new hospital, some have suggested that the government of the Northern Marianas may have difficulties finding and retaining personnel to adequately staff the facility. Do you feel this is a problem and, if so, how serious of a problem is it? What can the Department do now to help mitigate this problem?

Answer: Government of NMI

Yes, staffing the new health center may be a problem, but it is not an insurmountable problem. Recruitment of professionals is generally a problem in the CNMI.

The U.S. Department of Health and Human Services is actively involved in assisting the CNMI accomplish its plan to ensure that sufficient personnel are on board now and in the future to staff the new hospital. CNMI is also working closely with OTIA to recruit health care specialists for assignment to the CNMI through its technical assistance funding. OTIA could positively mitigate health

personnel shortage if it could make more technical assistance funds available to CNMI for the recruitment of necessary health care professionals. Our plan is to try and place the new staff on board now at the old hospital so that there will be several months of familiarization and more importantly, so that our local staff could be sent off island for comprehensive training to ensure long-term quality health care in the CNMI.

The Department of the Interior (OTIA) could further assist CNMI in staffing by contacting federal agencies involved in health care systems and arranging assignment of personnel through IPA or through funding from its technical assistance program. The more OTIA is involved and cooperative in our staffing action plan, the more likelihood that anticipated staffing problems could be mitigated.

Question: Assuming that the funding necessary to complete the hospital is less than originally expected, the Congress may choose to apply the savings to other high priority projects. In terms of priorities, would you rate improvement of the Saipan water system over all other proposed projects? How serious is the water system problem, and what, in your opinion, is the best way to resolve it?

Answer: Government of NMI

If there are savings from the hospital construction, we strongly recommend that they be applied toward water improvement on Saipan, which is still an extremely urgent priority, over others.

Answer: OTIA

The Saipan water system is in very poor condition and its improvement should be considered the number one funding priority. Without improvement the continued development of the primary industry on the island, tourism, will be greatly impaired.

The water problem is two-fold. First, the base supply system is old. Various components constructed at different times by different entities; namely the Japanese during their occupation of Saipan before and during WWII, the U.S. military forces post WWII, and more recently the Trust Territory and the CNMI Governments; have not always proven compatible thus damaging the system. Generally, the existing system needs an overhaul including repair and/or replacement of pumps, pipes, meters, valves, and lines, and leak detection and repair.

In addition, new major sources of water need to be identified, reservoirs developed, and a management plan for well fields developed and implemented. The CNMI Government initiated a major well drilling program on its own in January 1982. There is a real concern by EPA and USGS that the water lens areas currently identified and used may have been seriously damaged by over drilling. EPA is currently performing a general water quality assessment on Saipan. However, it is already known that salinity intrusion is substantially higher than acceptable U.S. standards.

CNMI needs to develop a municipal and industrial water system. The Department of Interior's Bureau of Reclamation is prepared to assist the CNMI Government in this endeavor. In September 1982, a locally contracted study of the Saipan water system was completed. The study estimated that \$11 million would be required to provide an acceptable potable water system for Saipan. In FY 1985, the CNMI Government has budgeted approximately \$1.7 million of the approximately \$8 million it will receive for CIP projects under the Covenant, for Saipan water projects. Primary emphasis will be extending and upgrading the distribution system and procurement of water meters.

Question: It has been suggested that one possible solution to mitigate if not resolve Saipan's water problems is to allow the water development and distribution system to be operated by a private company. Has the Department looked into this or other similar proposals? If so, what is your general opinion as to the feasibility of such a concept? If not, will you take steps to review this or other similar proposals in the near future?

Answer: Government of CNMI

CNMI has researched the feasibility of the privatization of the water system, and feel that given its present state, it will be extremely difficult to convince private firms to take over the entire operation of the system. It is feasible, in our opinion, to privatize certain elements of the water system such as maintenance of pumps, reservoirs, and water treatment facilities.

CNMI is looking into establishing a Board of Water Supply; a semi-autonomous agency of government which will be made responsible for planning, development, management, and operation and maintenance of the water system. Through the board, a better assessment toward privatization would be made after a comprehensive evaluation of all the problems, costs for operations and maintenance, as well as inventories, and assets of the water system have been completed.

Answer: OTIA

The Department of the Interior, specifically the Office of Territorial and International Affairs has been very outspoken in its encouragement of all the territorial governments to explore contracting with the private sector as a means to foster greater economic development and more efficient management and operation of certain activities currently run by the governments. Utilities is an area that is particularly conducive to this type of arrangement. We believe private sector operation of the CNMI water system would constitute a major step towards ensuring proper and preventive maintenance and thus, development of a more economic and efficient system. We will continue to stress our privatization concept in all feasible areas in the territories.

Question: Approximately how long would it take you to review this situation and report back to the Committee?

Answer: OTIA

We do not think a further review is necessary. We have explored the possibility and feasibility of privatization in all of the territories. We are committed to the idea and believe it should be vigorously pursued.

Question: Has the Department taken any steps to assess the power needs of the Northern Marianas? If so, what are the projected power needs over the next five to ten year period? If not, do you plan to perform such an assessment? When will you do it and what is the earliest date you could report back to the Committee?

Answer: OTIA

The Saipan Power Plant was built in 1980 for a cost of \$7 million, \$5 million of which was provided through a Department of the Interior grant. The plant was originally equipped with three 7.2 megawatt (MW) generators, giving it a total capacity of 21.6 MW.

In 1981, the CNMI Government contracted for a study of the Saipan power system. Generally, the study found that existing generating capacity was not adequate to meet predicted future demand, the distribution system needed upgrading and expansion, and an enhanced maintenance program was necessary.

In 1982, Governor Tenorio declared a power emergency for Saipan, Tinian and Rota following a breakdown of generators on Rota and Tinian. Since that time, generators on Tinian and Rota have been repaired and new capacity added. Also, another 7.2 MW generator was procured by the CNMI Government and added to the Saipan plant, giving it a total current capacity of 28.8 MW.

In September 1983, the peak load in Saipan reached 17.7 MW. The 1981 study predicted that peak load would reach 35 MW by the year 2000 based on the assumption that island population would double. In the CNMI FY 1985 budget request, the government estimated that peak load will reach 30 MW on Saipan by 1990 based on planned economic development.

The additional capacity provided on Saipan, Tinian, and Rota should be sufficient to meet future demand through 1990. The CNMI Government is continuing to find a

program of upgrading and expanding the power distribution system and increased maintenance.

The Department of the Interior does not see the need for or plan to perform a further assessment of the power needs in the CNMI at this time. The current power system should be adequate for several years and the CNMI Government has demonstrated its dedication to and capability of meeting its own current power needs and improvements. The Department will however monitor the situation closely, and keep Congress informed of any developments.

FEDERATED STATES OF MICRONESIA

Question: Moving now to the Trust Territory of the Pacific Islands, you have requested an operations budget for the Federated States of Micronesia of 40 million, 400 thousand dollars. This is a net decrease of 800 thousand dollars from the FY 1984 level and includes reductions of \$1,593,000 for health services and \$785,000 for public works. In light of the continuing health problems in the areas of the FSM and in light of ongoing and long-term public works requirements, how can you justify these reductions?

Answer: OTIA

The FY 1985 funding requests for normal operations of the three Micronesian governments have been developed by those governments, within the funding levels authorized by the President. The distribution by program of the operations grant for the Federated States of Micronesia is a reflection of the priorities of that government. The FY 1984 operations grant for the FSM totalled \$41,200,000, including a special \$2 million appropriation for cholera control. Excluding this special appropriation for cholera control, the FY 1984 appropriation for the FSM totalled \$39,200,000. The FY 1985 funding request for the FSM of \$40,400,000 provides an increase of \$1,200,000 over the basic FY 1984 funding level. The distribution of this funding increase has been made by the FSM based on its priorities of the various operations programs. After elimination of the \$2 million appropriation for cholera in FY 1984, the FSM allocation for Health Services in FY 1984 is \$6,950,000. The FY 1985 funding request would provide an increase of \$407,000 for Health Services in the Federated States of Micronesia. The FSM has also proposed significant increases for Education and Administration. The selection of programs to be provided funding increases in FY 1985 has been made by the FSM. It has been our position not to modify the distribution of funding among the various programs within the Federated States of Micronesia as proposed by that government, as an exercise of increasing responsibilities of self-government. The proposed reduction of \$785,000 for the Public Works activity is also a reflection of the priorities of the FSM government. While we may not agree with the priorities established by the FSM government, particularly as they relate to funding for Public Works activities, we have elected not to modify their budget request, as submitted within the funding levels authorized by the President. The reduction in Public Works funding may be possible as a result of the stability of fuel prices in Micronesia, management improvements in operations and maintenance activities, significant improvements in operations and maintenance activities made possible through prudent and efficient use of prior-year operations and maintenance funding, and the continuation of enhanced operations and maintenance programs through FY 1985. Since the proposed reduction in Public Works funding was initiated by the FSM government, we must assume that the FSM has considered the FY 1985 operations grant, the FSM may desire to make further modifications in order to carry out essential governmental programs, according to priorities established by the FSM.

Question: The public works budget in particular has been reduced some \$1.6 million since FY 1983. Are we doing so much better in this area that we can afford this type of reduction? Does the FSM government believe this reduction is prudent?

Answer: Federated States of Micronesia

The decrease in the public works budget reflects the increased availability of enhanced operations and maintenance funds for infrastructure maintenance over the past two years. Proper maintenance and repair of government facilities as well as hiring of experts and acquisition of needed maintenance equipment have been made possible through enhanced O&M funding. States electric rates have been

raised to partially cover the cost of power generation. It is not anticipated that the electric rates will totally cover the cost of generation; however, rates will be periodically adjusted to partially offset generation costs.

Increased enhanced operations and maintenance funding is desirable to continue the maintenance of public facilities in all states of the FSM.

Question: With respect to health services what is the current status of the cholera epidemic on Truk? What improvements have been made to prevent widespread outbreaks in the future? What work remains to be done, and how much of the FY 1985 budget will be allocated for this effort?

Answer: OTIA

First, there is no longer a "cholera epidemic on Truk". Cholera in Truk is endemic. While it may recur from time to time during the next several years, it has been brought under control and no longer presents a major health problem.

Many precautions have been taken to prevent "widespread outbreaks in the future." The Health Services' professionals and staff have received experience and extensive training and are prepared to cope with this problem should the disease reappear. In addition to a fully prepared and staffed medical service, there is a continuous rural sanitation program expected to continue for the next 18 to 30 months. This rural sanitation program will largely eliminate this problem by attacking the major causes of the disease -- inadequate and improper waste disposal and contaminated water supply. Also, personal hygiene is being improved as a result of continuing health education.

Answer: Federated States of Micronesia

Cholera in Truk is in an endemic state at this time, but without completely eradicating the disease, the potential for another serious epidemic occurring will remain a serious threat to the health of the people of that state and to the rest of the Federated States of Micronesia as well. Since the epidemic outbreak in 1982, the State of Truk has mounted an aggressive attack on the disease to contain its spread. With the funds provided by this Congress, the epidemic was brought under control and our latest information reveals that fewer and fewer cholera cases are being detected.

One sure way to eradicate cholera completely is to construct sanitary waste disposal systems and clean water catchments for the people. This is a major project which is currently underway. The funds made available in FY 1983 and FY 1984 will substantially improve the situation, but it will certainly fall short of the total required to meet the population need. The Department's decision to eliminate cholera funding in FY 1985 does not fit well with our desire to move forward in putting in place the necessary facilities to help prevent and eliminate cholera totally from Truk and the FSM.

Question: Similar to the cholera problem on Truk, what is the status of the leprosy problem on Ponape? What efforts are now being made to address this situation, what do you expect to do in the future, and how much will you spend in FY 1985 to combat the problem?

Answer: OTIA

Leprosy is present throughout Micronesia but Ponape has the most serious problem. The new case report for Ponape includes 442 cases found in a special survey of Pingelap and Kapingamarangi (conducted by a World Health Organization (WHO) Leprologist) as well as 34 additional new cases found in other parts of Ponape.

We have received support and assistance in the form of manpower and medicines from Region IX (RHS), the World Health Organization (WHO), and the University of Hawaii. We have also coordinated special training programs offered by WHO both within the Trust Territory and at the specialized Twomey Hospital in Suva, Fiji. FSM medical officers and medexes have attended training programs in laboratory technology and leprosy management since these programs began in 1979.

the World Health Organization (WHO) sends leprologists to the Trust Territory on an average of every two years. They review case records and report results. In addition, Dr. Worth of the University of Hawaii corresponded with the Office of the High Commissioner and President of the Federated States of Micronesia pressing his concerns regarding leprosy control. As a result, Dr. Worth worked with a World Health Organization (WHO) consultant to develop a proposal for the Federated States of Micronesia. The FSM also developed a proposal. The two plans are comparable and complementary.

The WHO proposal would cover a period of eight (8) years, affect Ponape and Truk, and cost \$126,000. The FSM proposal would cover one (1) year, affect the four states (of the FSM) and cost \$80,000. The World Health Organization (WHO) proposal ensures their long-term commitment to leprosy control projects in the Federated States (FSM). According to Dr. Worth, this will help in securing U.S. search funding.

In the meantime, the WHO has provided the following drugs requested by the FSM: fampicin, Lamprene and Dapsone. WHO has indicated that they can provide additional drugs if the case load requires an increased supply.

In addition, the WHO has donated \$7,841 for travel and \$5,000 for consultant services and conducted leprosy laboratory training workshops in Ponape (for Ponape and Truk) and in Truk during December 1983.

Further assistance in leprosy control efforts will come from the Trust Territory Preventive Health and Health Services block grant (DHHS/PHS, Region IX). This is a flexible grant that can be used for diseases such as leprosy, tuberculosis, diabetes, and hypertension. In 1983, this grant was consolidated with the Low Income Home Energy Assistance Program.

It should be noted that the major factor in leprosy control is getting people to take their medicine each and every day. This is a process that can take five (5) years or even a lifetime, depending on the type and severity of the individual leprosy case. It will take intensive effort by public health personnel to achieve this goal.

The amount to be spent in FY 1985 will depend on local (FSM) priorities, outside support (WHO, HHS, etc.), and a future meeting to be held on Ponape in the near future. This meeting will determine whether existing and outside funding will be adequate to combat the problem.

Question: Is this funding level enough to adequately combat the problem?

Answer: Federated States of Micronesia

The FSM request for the re-instatement of \$2.0 million in cholera funding in FY 1985 needs favorable consideration of the Congress to allow the FSM to continue its cholera eradication efforts and to establish systematic review of leprosy and tuberculosis in the various States. Next to cholera, leprosy and tuberculosis are the most critical health problems facing the FSM. Leprosy, for example, has reached an epidemic stage according to WHO officials. Financial assistance to combat these environmentally related diseases is a critical need.

Question: Please briefly outline for the Committee the status of the power generation and distribution facilities in each of the four FSM states, the Department's plans to meet remaining problems, and the costs in FY 1985 and beyond associated with any future plans.

Answer: OTIA

The status of the power generation and distribution facilities in each of the four FSM states is as follows:

- p - All 4 generators (2 - 750 KW white superiors and 2 - 800 KW caterpillars) are in good working order. The distribution system has been extended an additional 14 miles and is now under analysis by a DOI funded electrical engineer to determine corrective measures to eliminate excessive power loss.

Kosrae - All 4 existing generators (2 - 400 cats and 2 - 350 KW white superiors) are now in good working order. A new 400 KW cat is now being installed and is expected to go on line by August, 1984. Furthermore the power plant building is now being expanded with CIP funds with assistance being provided by Kosrae's cat team.

Answer: Federated States of Micronesia

STATE OF TRUK

No. 1 Nordberg 1155 KW - Deadlined for stator rewind
 No. 2 Caterpillar 800 KW - Operational
 No. 3 Caterpillar 800 KW - Operational
 No. 4 Caterpillar 800 KW - Operational
 No. 5 Caterpillar 800 KW - Operational
 No. 7 Caterpillar 800 KW - Operational

STATE OF PONAPE

No. 1 Caterpillar 500 KW - Operational
 No. 2 Caterpillar 500 KW - Operational
 No. 3 Caterpillar 500 KW - Deadlined. Undergoing repairs to radiator motor and electrical problem. Engine and generator are O.K.
 No. 4 White Superior 750 KW - Operational
 No. 5 White Superior 750 KW - Undergoing overhaul, 95% complete

No. 1 Caterpillar 800 KW - Operational
 No. 2 Caterpillar 800 KW - Operational
 No. 3 Caterpillar 800 KW - Operational

Electrical Distribution System, Ponape

1. Upgrading and realignment of a portion of the 4160 volts, power distribution system to 13,800 was completed in June 1983. Areas affected were from the agricultural area to: a) FSM Congress Buildings; b) Administration Building Complex; c) Airport and Dock areas; d) Balanced electrical load in Kolonia.
2. Survey and plotting of power poles to change underground power lines to overhead distribution for the Taketik Causeway, Airport and Dock areas was completed in July 1983.
3. Upgrade of Feeder No. 1 1/0 Line to 336.4 MCM from Nanpdhmal Power Plant to the Spanish Wall in Kolonia is presently being worked on. Estimated completion is scheduled for the end of May 1984.

STATE OF KOSRAE

For your information, as of April 25, 1984, the two (2) 300 KW White Superior engine generator units which were purchased approximately 11 years ago are fully operational.

Question: As the \$2.4 million requested for the terminals for FY 1985 is proposed to be made available through an FY 1984 reprogramming, what would you propose to do with the FY 1985 funds should they be provided by the Congress?

Answer: OTIA

Because of an FY 1984 fund commitment by the Federal Aviation Administration, the Department was considering a reprogramming request that would fund construction of the airport terminals in FY 1984 rather than in FY 1985 when it was budgeted. The Department now believes that a similar commitment can be obtained from the FAA in FY 1985, so there is no need to amend the FY 1985 budget.

An amendment proposed for FY 1985 would have included funds to pay for capital improvement shortfalls in Kosrae (airport paving) and Ponspe (road drainage). These items have now been submitted to the Congress as part of a large FY 1984 reprogramming request.

Question: Yap State and Kosrae State have recently seen construction of new airport runway facilities. What is the status of each project? With regard to the Kosrae runway, has it been paved yet? If not, why not?

At the same time the Kosrae runway was being built, the contractor began construction of an adjacent dock facility. What is the status of this project and when do you expect it to be completed? Are additional funds needed to finish the dock or the runway including laying of water and electrical lines for both facilities?

Answer: Federated States of Micronesia

Construction of both Yap and Kosrae runways have been completed, although the Kosrae runway is coral and unpaved. The Kosrae dock facility is also completed. Kosrae runway paving and the water and power distribution lines to the two facilities are being designed. Current estimate of funding shortfalls for the two projects is \$2.6 million for paving and \$.7 million for the power and water distribution lines, respectively.

Question: For FY 1985, you have requested \$2 million as the final installment necessary to complete the Kosrae circumferential road. What is the construction status of this road? Is the \$2 million sufficient to complete the road or will we likely need more than this? How much more do you feel would be necessary and what is the expected completion date of this project?

Answer: OTIA

The first mile of road construction is now 100% complete. The \$2 million requested in DOI's FY 1985 budget request when combined with prior year funding raises total funds for this project to \$5,550,000. This level of funding will be sufficient to complete 80% of this project. It is expected to take another 3 years before this project is completed and any additional funding will be available under the terms of the Compact of Free Association.

Answer: Federated States of Micronesia

Kosrae circumferential road system has 2 miles designed for which \$2 million is requested in FY 1985. The remaining seven (7) miles of the circumferential system needs to be designed and are estimated at \$8 million. If fully funded, the Kosrae circumferential road will be completed in 1987.

Question: In an effort to promote economic development on Kosrae, the FSM government and the Department have proposed developing and expanding both the agricultural and wood products industries in the state. What is the status of these economic development proposals and what specifically is the Department doing to promote them?

Answer: OTIA

With regard to wood (forestry) products industries in Kosrae state a funding level of \$175,000 has been made available through an FY 1984 HUD, community development block grant to fund this important economic development program. Current cost estimates for a Kosrae sawmill is \$172,000 therefore HUD, CDBG funding will be sufficient. As for Agricultural products; Kosrae is working with DOI, UNDP and University of Hawaii in developing better production techniques for their exportable products (i.e., citrus). A major problem inhibiting the export of this commodity is the need for fumigation facilities. Another problem is crop rotation procedures and local work patterns.

Answer: Federated States of Micronesia

Agricultural development is a State priority. Kosrae citrus development program has been going on for some time and is a potential export product from the State.

Additionally, Kosrae State has an abundance of wood resources that can be milled for lumber thus reducing the dependence on high costs of imported lumber. Plans are underway to put into place a sawmill capable of milling the lumber needed by the State. The State is now seeking \$120,000 to purchase and install the sawmill.

Question: With regard to Ponape State, what is the current status of water and sewer systems, and what remains to be done to complete them?

Answer: OTIA

The current status of the water and sewer systems in Ponape state is as follows:

Water Systems: A leak detection survey and report has been completed in October 1983, by a professional engineering firm. In this report numerous recommendations are included. First of which is installation of water meters to help identify specific loss rates. From all indications it looks like a major part of the total leakage is in house service laterals and within the user's home or establishment. It is estimated that over half of the total water production (2 million gallons per day) is lost due to waste and leakage. Funding is available, FY 1982 and FY 1984 (\$2 million) to fund corrective measures. This program will be completed within 15 months after which Kolonia should be on 24 hour service.

Sewer Systems: Utilizing FY 1983 U.S. EPA grant funds the Kolonia sewer system will be 10% complete. A contract to construct the Kepline sewer/house connections was just recently awarded with completion scheduled for May 1985. This project is managed by OICC. Also, innovative alternative waste water disposal systems are either under construction or design for the municipality of Sokehs. It has come to our attention that the Kolonia central sewer system is now experiencing large quantities of ground water infiltration within areas which were constructed prior to the current 5 year CIP. OICC has been tasked with investigating this situation, and make recommendations for corrective measures.

Answer: Federated States of Micronesia

Ponape water system requires \$1 million for a Kolonia distribution system extension and \$1.2 million for a water transmission line and treatment facilities in the hospital area and also \$5 million to conduct water supply well drilling in different parts of Ponape. The drought experienced last year dried up some of the streams supplying the main water system in Kolonia causing critical shortages of water in Kolonia. The deep well water systems are not expected to be affected by any such droughts and will be cheaper to maintain and treat.

The Ponape sewer system requires \$4 million for extension to the airport/dock vicinities and to construct a treatment plant and marine outfall pipeline to the channel deepwater.

Question: Also, with regard to Ponape, it has come to the Committee's attention that certain ditch and drainage problems have developed with respect to the Ponape road system. Please explain to the Committee the circumstances and extent of these problems. What is currently being done and what, if anything, will be necessary to do in the future to resolve these problems?

Answer: OTIA

Over the past six months numerous meetings involving Ponape State, FSM National Government, TTPI and OICC personnel have been held to determine a solution for the road ditch drainage problems. As an outcome of said meetings an architectural and engineering firm was retained to analyze the situation and make recommendations to correct the problems. A study was completed in early March 1984 and a solution has been chosen. The ditches will be covered with a concrete cover (precast) with steel grating at fifty foot intervals to allow for water flow. The bottom and sides of the ditches will receive new grouted riprap. This is alternative #3 in the study. (See Appendix D)

Question: Over the past several years, the Congress has provided considerable funds for the development of water systems in Yap and Truk States. What is the current status of these water system development projects and what remains to be done?

Answer: OTIA

Yap State: The Kolonia water system is now operating on a 24 hour basis. The water treatment plant improvements are completed with increased treatment as an outcome. Through a leak detection program, administered by Yap State personnel,

improved water service has now become a reality. Yap State is now billing consumers to recover operation and maintenance revenues.

The Gagil/Tomil water system is under construction and is expected to on line by June 1984. Yap State has hired a professional engineer for system start-up as well as system O&M.

The southern Yap water system is now in the final design stages. Construction of the 100,000 concrete water storage tank will commence prior to completion of the design work for the distribution system. Estimated construction completion date is 12 months after commencement of construction.

In addition to the above, Yap State is soon to start a rural sanitation program utilizing DOI grant funds (\$1,000,000 FY 1983 sewer hood monies and \$420,000 FY 1984 water catchment monies). This program will be on a self-help basis. Water storage tanks and water seal toilets will be constructed in all of Yap's 129 villages. The Yap Community Action Program (Yap-Cap) will be the contractor for this project. This program will require 18 months for implementation.

Truk State: Moen Island water system should be on 24 hour water service as soon as current improvements are completed. These improvements include:

1. Truk Well Drilling: Drill 29 exploratory wells at various locations on Moen Island. Depending upon results develop approximately 15 into producing wells. A contractor is now mobilizing for this project and U.S.G.S. has been retained to oversee the drilling. This project will be completed by September 1984. Once the Moen wells are developed the driller will be issued a change order to drill wells on the Island of Dublon. We anticipate that current water needs will be met by expanding this program to Dublon. If residual financial resources remain available then additional Truk Lagoon Islands will have exploratory water wells drilled according to local priorities and U.S.G.S. estimations of potential water resources.
2. Truk Water Improvements: Under a contract administered by OICC a contractor is currently installing over 9000 feet of 12 inch water line to service existing and proposed well sites. In addition, a 2 million gallon tank, 1,000 feet of 12 inch line, well connections and chlorinator buildings are soon to be completed.
3. Finally, utilizing FY 1983 DOI funds of \$1,653,000 and FY 1984 \$2,000,000 additional distribution systems, well pumps, etc. will be constructed on Moen and Dublon. This project is in the preliminary design stages and expected completion date is November 1985.

Answer: Federated States of Micronesia

Two major water project agreements have been executed recently between the Office of the High Commissioner and the President. The two projects include \$2.1 million for the Southern Yap water system which is expected to be completed by 1986 and the Dublon/Moen water system improvements for \$3.65 million, which is estimated to be completed by mid-1986. These two projects will provide added capacity to the current systems to supply the demand of the population being served.

Question: Is the current water supply on both Yap and Truk sufficient to meet the population's needs, or is the development of new wells and/or reservoirs just as important as the development of the distribution systems?
Has the Department developed a cost estimate to complete these water system projects? If so, how much will it cost?

Answer: OTIA

As stated previously, the current water supply (including planned programs which have funding) on Yap and Truk are sufficient to meet the population's needs. Conservation of water resources as well as efficient management will play a vital role in ensuring that all of the population benefits from centralized systems. New wells are being developed to satisfy demand. With current available funding all water system improvements (5-year CIP) have or will be met.

Answer: Federated States of Micronesia

Both Yap and Truk water systems are insufficient for the current population. Projected growth and development indicate that more wells and storage facilities will be needed to provide sufficient supply of clean water to the populations of the areas being served.

REPUBLIC OF THE MARSHALL ISLANDS

Question: In fiscal year 1984, the Congress provided \$8 million to complete the Majuro sewer system. How far along is this project and what are the final construction costs expected to be?

Answer: OTIA

Phase I of the Majuro system is funded by the U.S. EPA. Design is now 90% completed. Invitation to bid Phase I is expected by June 1984.

With FY 1984 funding of \$8,000,000 for Phase II, the design fees are being negotiated. Invitation to bid on Phase II is not expected until January 1985. Final construction costs will be \$13,000. EPA has granted \$5,000,000. Current construction funding is \$13,000,000.

Answer: Republic of the Marshall Islands

The Majuro sewer system scope of work is in two phases. Phase I has been funded in the amount of \$5 million by an EPA grant and the design plans and specifications have been completed. Requests for bids will be initiated within thirty (30) days.

Phase II has been funded in the amount of \$8 million by direct Congressional appropriation. A design contract has been awarded to Barrett Harris, Inc., and completion of the plans and specifications, bid requests and award of construction contract is anticipated by September 1984. The estimated completion date for both Phase I and Phase II is 24 months.

Question: Similarly, the Marshalls last year completed and began generating power at their new power plant on Majuro. Has this new power generation system worked satisfactorily or have there been problems in keeping the system up?

When the new system went on line, what was done with the power generating equipment and facilities previously used on Majuro?

Answer: Republic of the Marshall Islands

The system has been operating satisfactorily since its commissioning in December 1982, and there have been no maintenance problems. The system is operated by the Marshall Energy Corporation (MEC), a joint venture with a private sector firm. During the first year of operations, the company reported a record of 99.8 percent power availability. The few power outages which did occur were related to problems with the distribution system and not the generating plant.

The company also reported a significant savings in operational costs compared to the old power plant. Fuel costs have declined from approximately 9.6 cents per kilowatt hour at the old plant to 5.1 cents at the new plant due to the use of more efficient, slower speed engines and a less expensive grade of fuel. The old plant used automotive diesel oil at a final cost of \$1.24 per gallon. The new plant uses Bunker "C", which costs 80 cents per gallon.

There has been an increase in power consumption as a result of reliable power being made available. The average daily load increased by approximately 34 percent during the plant's first year of operation and peak load increased from 1.7 megawatts to 3.2 megawatts.

MEC has a 10 year management contract which includes responsibility for maintenance and training of Marshallese in power plant operation and maintenance.

Currently, the power generating equipment previously used on Majuro is in various stages of overhaul. The CAT 500 KW generator has been transferred and is being

installed in the new Majuro hospital. The remaining units are scheduled for overhaul at the new power plant machine shop under a training program by MEC. Upon completion, the units will be transferred to Jaluit or other outer-islands as needed.

Question: What is the general status of the electrical power needs in other areas of the Marshalls?

Answer: OTIA

On Ebeye the electrical power needs are being met satisfactorily. The power plant has been rehabilitated (five units with a total generating capacity of 3,000 KW). Present demand now peaks at 1,400 KW, having increased by 25% in the past nine months. The Kwajalein Atoll development authority intends to utilize two low speed diesel engines, each capable of producing 2,600 KW of power utilizing interim use agreement funding as a funding source.

Answer: Republic of the Marshall Islands

The Government of the Marshall Islands is in the process of rehabilitating some of the generators previously used on Majuro and transferring them to other centers, such as Jaluit.

Jaluit requires additional capacity so that present equipment can be shut down for maintenance. Ebeye also requires additional generating capacity. The Kwajalein Atoll Development Corporation intends to construct a new 5.2 megawatt facility to meet the needs of Ebeye. There are no reticulated power systems on Wotje or Ailinglaplap, both of which are major population centers.

Question: What is the status of the new hospital construction on Majuro? What is the proposed timetable for completion of this facility and what will be its ultimate cost?

Answer: OTIA

The new hospital on Majuro is now 70% complete. The project is scheduled to be completed by January 1985 and its total construction cost (including equipment) is \$6,900,000.

Answer: Republic of the Marshall Islands

The schedule for completion of the new Majuro Hospital is January 1985. Construction is proceeding on schedule with approximately 65% completed at this time. The projected ultimate cost for the facility is \$6,990,000.

Question: Ebeye has over the past several months undertaken a number of improvement projects, including upgrading the roads, sewer and water systems, and the hospital. What remains to be done in this regard, and what has the Department done to assist Ebeye in this effort?

Has or will the Department make any effort to assist Ebeye in the development of their causeway and expansion project including the use of Departmental expertise in a number of technical areas such as highway construction, wildlife mitigation, and others?

Isn't this a proper role for the Department to take in the development of this project?

Answer: OTIA

The projects mentioned above have all been funded with FY 1980, 1981 and 1982 capital improvement project and interim use agreement (IUA) funds. The Kwajalein Atoll Development Authority (KADA) has developed a long range master plan (copy of which is attached) which delineates what types of improvements are planned for Ebeye. The Department plays a passive role in Ebeye developmental aspects. Since IUA funds are provided by the Department of Defense, DOD takes a more active role in the approval process. It is our understanding that the Ebeye development is currently under review. The High Commissioner plays an

active role in providing financial accounting assistance with regard to the IUA funds. (See Appendix E, Parts 1 and 2.)

As stated above, DOD is assisting Ebeye with design review and environmental analysis with regard to causeway/highway construction.

Since the IUA funds are lease payment monies, the Department believes that the lessee (DOD) should take an active role with the leasor's. In fact, DOD has an office established for this purpose.

Answer: Republic of the Marshall Islands

Status of improvement projects on Ebeye are as follows:

1. The hospital upgrade is essentially complete except for the standby generator switchgear. This switchgear is scheduled for installation within 30 days.
2. The sewer treatment plant and lift stations are complete. Some EPA funded lateral lines upgrading and salt water flushing intake pump installation is awaiting approval of design by EPA.
3. The fresh water filter and distribution system is complete except for some adjustments being made to link the old water catchment system to the new system.
4. The road work improvements have been delayed due to sewer and water line installations. This temporary work is scheduled to be completed within the next 6 months.

At the present time maintenance and training assistance is being provided to Ebeye under the 1981 O&M funding. On May 15, 1984, the Republic of the Marshall Island Cabinet approved an O&M contract with A.I.C., a private firm from Seattle, Washington, to provide for operation, maintenance and training for the hospital, fresh water system, salt water system, sewer and roads (upon completion). The contract calls for A.I.C. to provide 6 expatriates and 4 Marshallese to work with Ebeye Public Works for hands on training in the above systems.

Question: It has come to the Committee's attention that several months ago the Department was requested by the Marshalls government to take the necessary steps to increase the tax on Kwajelein from 3 cents to 5 cents. To date, it is my understanding that no action has been taken to honor this request which, on the surface, appears quite reasonable and responsible. Why has no action been taken?

Answer: OTIA

A Secretary's Order is being prepared to authorize the tax increase.

Question: Can the Committee expect positive action on this request in the very near future? When?

Answer: OTIA

We expect the Secretary's Order to be issued within the next month or so.

REPUBLIC OF PALAU

Question: While virtually all the island governments face extremely high government administration and personnel costs, this problem appears especially prominent in the Republic of Palau at this time. The Congress has been extremely concerned over this situation and, just recently, Chairman Yates and myself wrote to President Remeliik requesting that he do everything in his power to remedy the problem. While I am aware that Palau has in fact taken several excellent steps to combat the problem, it nevertheless seems that much more can and should be done.

What constructive solutions can you suggest to assist Palau and, similarly, what more can Congress do to help?

Answer: Republic of Palau

There are indications that the Palau Congress (OEK) will be able to enact a tax bill to increase local revenues, as has been required for the reprogramming of CIP funds by the Department of the Interior in consultation with this committee. We request immediate approval and release of the funds as soon as the tax bill is enacted. We will have exhausted all borrowing and cash authorities for FY 84 by July 1, 1984, even if the tax bill will have been enacted at that time.

We request the Congress' support for our request for the release in a lump sum the balance of the DOI funds due Palau for the 4th Quarter of FY 84 as soon as the tax bill is enacted by the Palau Congress. We plan to clear all loans with commercial banks as soon as cash can be advanced in order to avoid accumulation of interest.

Answer: OTIA

Throughout the financial crisis facing the Republic of Palau, the Administration has maintained open lines of communication and a constant dialogue with the leadership of Palau. We have taken several steps to assist Palau in addressing its current financial crisis. Specialists have been sent to Palau to review and recommend revenue enhancement measures and to evaluate and recommend modifications in organizational structure. Liberal apportionment schedules have been approved for Palau to allow them to address the financial crisis in a timely manner. The High Commissioner and her staff have held innumerable meetings and conversations with representatives of Palau in an attempt to monitor the situation. At this point, the Palau financial situation is, as Palauan leaders have advised us, an internal problem. The solution to Palau's financial crisis is quite simple: Reduce expenditures and/or increase local revenues. Until the Palauan leadership, particularly in the legislative branch, takes constructive steps to deal with their financial situation, it is our position that neither the Administration nor the U.S. Congress should take any further actions. We are most happy to assist Palau in implementing any constructive solutions that can be identified by their leadership. To act unilaterally to address the financial situation in Palau would defeat our efforts to promote self-government throughout Micronesia. It is our belief that the current financial situation in Palau has been substantially created by the legislative branch, and corrective actions must be taken by that same leadership.

Question: Is it reasonable to attempt to lower government employment in this regard or is increasing local revenues the only answer? Can we do both?

Answer: Republic of Palau

We think the level of government employment and personnel costs should be reduced; this is not an easy task. We need to devise a system so that the task can be performed fairly and efficiently. A task force is being organized to formulate a system, and we have requested technical assistance for this program. We think the most effective approach to reducing the level of government employment is through a retirement program. With your approval of our request for \$500,000 as seed money for a retirement program, our government will be able to encourage and/or formulate a mandatory retirement program for older and less efficient employees without further delay.

To reduce the cost of the government and improve the services, we must reduce the cost but at the same time increase revenues.

Answer: OTIA

It is our belief that significant improvements could be achieved in the financial condition of Palau through a combination of reasonable efforts to lower government employment and to increase local revenues. In efforts to lower the cost of government, both the number of government employees and the salaries paid to those employees must be carefully reviewed and cost saving measures instituted. In addition, it is our belief that the Government of Palau could significantly increase locally-derived revenues without adversely affecting current economic development efforts. An appropriate combination of these efforts will be required if Palau is to avoid further and more severe financial difficulties in the future.

Question: What specific revenue enhancement measures can be taken to complement those measures already taken by the Palau government?

Answer: Republic of Palau

In addition to certain changes in the existing taxes, the following new tax sources are being considered to enhance the level of local revenues:

1. Hotel Room Tax;
2. Amusement Device Tax;
3. Traveler's Head Tax;
4. Road Use Tax;
5. Foreign Water Vessel Tax.

Answer: OTIA

A variety of measures can be taken by the Government of Palau to increase locally derived revenues. These measures may include an increase in the personal income tax rates, an increase in the level of import tax rates, institution of utility fees consistent with the cost of production, the institution of user charges for public facilities and services, and similar measures. These measures, as well as others, were previously identified to officials in Palau by the tax advisor provided by OTIA through technical assistance funds. However, regardless of the number and variety of revenue enhancement measures that can be identified, only the Government of Palau can institute those measures.

Question: The government of Palau last year contracted to construct a new 16-megawatt power plant on Koror. What is the status of this construction project? What is the condition of the power plant currently in use on Koror?

Answer: Republic of Palau

The Republic of Palau contracted with IPSECO International Power System Company, Inc., of the United Kingdom to build a 16-megawatt power plant and a 6-million gallon fuel oil storage at Aimeliik State, not on Koror.

Construction of these facilities are proceeding rapidly (about 10 to 15 percent completion stage at this point in time). Foundations for the power generating equipment have been laid. Foundations for the fuel oil storage tanks are being laid at present. Many container vans (over 60 of them) containing components for the power plant structure and other construction materials which have recently arrived at Malakal port of Koror and are being ferried to the power plant site Imelsubech Hamlet of Aimeliik State, some 8 sea-miles from Koror.

Although contractually the power plant is to be completed in a 24-month period, the fact that the funding necessary for the electrical transmission line to connect this power station to the closest point on the Koror/Airai transmission/distribution system (some 14-16 miles away), has not been procured, will mean it will be a good three years or more before the 16-megawatt power plant can be effectively put into operation.

The present condition of the existing power plant in Koror can be best described as follows: out of the total eight power generating units ranging in generating capacity from 750 KW to 1250 KW, only three units are presently operational with a total output of 2000 KW, which is only half the normal power demand. At this very moment, power is rationed which affects some parts of the community with power outages anywhere from two to eight hours in duration. Needless to say, the impact of this situation on the community is very critical in that frozen food items have been spoiled, both private business and government operations are disrupted, operations of important governmental institutions such as schools and the hospital are affected as well as utility systems dependent on electric power for their operations such as the water and sewer systems.

The following is a brief report on the present condition of each of the eight power generating equipment in the Malakal power plant and associated cost estimates to fully rebuild each unit and keep the unit fully maintained for a period of three years until the new power plant becomes fully operational:

A. 750 KW White Superior - Unit No. 1: This unit is presently shut down due to problems associated with low jacket water pressure which in turn causes high

lubrication oil temperature. Approximately \$213,000 is required for the complete rebuilding of this unit as follows: (a) \$80,000 for parts; (b) \$10,000 for replacement of all pipes and fittings in the cooling system; (c) \$23,000 for the supervisory labor for rebuilding the unit; and (d) \$100,000 for keeping the unit fully maintained in the next three years.

B. 750 KW White Superior - Unit No. 2: This unit is shut down due to a failed crankshaft. Approximately \$313,500 is required for the complete rebuilding and keeping the unit fully maintained for the next three years as follows: (a) \$155,500 for all parts including a replacement crankshaft; (b) \$35,000 for the complete replacement of the cooling system; (c) \$23,000 for supervisory labor; and (d) \$100,000 for keeping the unit fully maintained in the next three years.

C. 1000 KW White Superior - Unit No. 3: This unit is shut down and is presently under repair. It is anticipated that the unit can be operational again within four to six weeks, depending upon how fast parts can be procured and delivered in Palau. Approximately \$301,000 is required for the complete rebuilding and keeping the unit fully maintained for the next three years as follows: (a) \$113,000 for parts; (b) \$40,000 for complete replacement of the cooling system; (c) \$23,000 for supervisory labor; and (d) \$125,000 for keeping the unit fully maintained in the next three years.

D. 800 KW Caterpillar - Unit No. 5: This unit has recently been rebuilt and is now in operation. Because of the high speed nature of the unit, the recommended applicable electrical loading must be limited to 80 percent of the factory rated capacity of the unit. This type unit should only be utilized as a standby power source and not to be operated as a prime power source. Approximately \$60,000 is required to keep the unit fully maintained as a standby power source in the next three years.

E. 800 KW Caterpillar - Unit No. 6: This unit is presently shut down due to a damaged crankshaft and a fractured block. This unit is not economical to repair, but should be retained so that parts can be cannibalized from unit for Unit No. 5. Because approximately \$170,000 is required for a replacement unit, including components for a complete replacement of the existing but deteriorated cooling system, silencer and other accessories. \$60,000 is required to keep the replacement unit as a standby power source fully maintained for the next three years.

F. 1250 KW ALCO - Unit No. 7: This unit is presently shut down due to a damaged stator. The stator costs \$29,000 to repair. It will be early July 1984 before this unit can be put back in operation. Approximately \$150,000 is required for a complete overhaul of the unit within the next three years and to keep unit fully maintained in said period of time.

G. 1250 KW ALCO - Unit No. 8: This unit is presently operational but kept at 80 percent of the factory rated capacity of the unit. Some \$150,000 is required to completely overhaul the unit and keep it fully maintained within the next three years.

H. 1250 KW ALCO - Unit No. 9: This unit is presently operational but kept at 80 percent of the factory rated capacity of the unit. \$150,000 is required to completely overhaul the unit and keep it fully maintained within the next three years.

Answer: OTIA

The 16 megawatt power plant is currently under construction not on Koror, but in the State of Aimeliik on Ebelthaupt Island. We have been informed by the contractor that the first generator should be operational by January 1985.

The condition of the power plant currently in use on Koror is as follows: 3 engines (capacity 2000 KW) out of 8 engines (capacity 6850 KW) are operational.

In addition, the turbine loaned to the Republic by the British Company IPSECO, is out of operation. (The peak demand is about 4,000 KW, so it is necessary to ration power at this time).

Question: What steps have or can be taken to improve the condition of these facilities so that they can be used elsewhere when the new power plant is complete? Does the government of Palau have specific plans to place these generators elsewhere when the new facility is complete? If so, what are those plans?

Answer: Republic of Palau

When the new power plant is completed and put into operation; all the eight power generating equipment presently in the Malakal power plant should be fully overhauled and relocated to be used as standby power as follows:

A. The three ALCO's and the 1000 KW White Superior will be relocated in the new power plant and incorporated into the system to be used for picking up small load surges until 3000 KW is reached when an additional larger unit is put on the line.

B. One of the 800 KW Caterpillars should be relocated at the McDonald Hospital as a standby unit.

C. The other 800 KW Caterpillar unit is to be relocated at the Malakal sewage treatment plant as a standby unit.

D. The two 750 KW White Superior units, each will be relocated at Peleliu and Anguar respectively to meet long range industrial and tourism development electric power demand needs.

It will cost approximately \$1,500,000 to completely overhaul and relocate all the power generating units presently in the Malakal power plant according to the above plan.

Answer: OTIA

Overhauling the existing generators utilizing enhanced O&M funds will improve the facilities so that they can be used elsewhere when the new power plant is completed.

The Government of Palau has stated that they intend to relocate these generators in the outer states of Palau when the new power plant is completed.

Question: In fiscal year 1982, the Congress provided \$500,000 to make emergency repairs at the McDonald Memorial hospital on Koror, and provided a similar amount for A and E costs for a new hospital on Koror. What is the current condition of Koror's hospital and what progress has been made in the planning of a new facility?

Answer: Republic of Palau

The Republic of Palau actually received \$480,000 (not \$500,000) for emergency repair of certain buildings at the McDonald Memorial Hospital. Planned renovation work on the existing hospital facility has been designed, materials ordered and actual renovation work is in progress. Renovation work is scheduled to be completed by November 1984.

The existing condition of the McDonald Memorial Hospital can be briefly described as follows:

- Buildings deteriorating and in disrepair
- Substandard mechanical and electrical systems
- Buildings at considerable variance with building and life safety codes
- Very poor function relationships and circulation
- Outdated patient bed areas
- Narrow corridors and undersized doors
- Corridors used for waiting and storage because of lack of space
- Lack of sterile environment in critical areas such as surgery, delivery, nursery, etc.
- Outdated and worn out equipment -- frequently out of service because replacement parts not available
- Over-crowded patient treatment areas
- Inadequate support areas such as utility rooms, storage spaces, etc.
- Undersized and poorly equipped departments

The physical facilities assessment prepared by the architectural/engineering firm of McKinlay/Wannaker/McNeil of San Francisco concludes with the following statement:

"Operational problems, space demands and bad equipment will continue to plague the hospital for years to come. Most buildings are too old to be effectively renovated, and many departments are in the wrong location for adequate operations. It would be a waste of money and effort to attempt to expand services and add-on to decaying structures."

In April 1983, the architectural/engineering firm of Stone, Marraccini and Patterson of San Francisco was contracted by the Republic of Palau to design the newly proposed Palau National Hospital. This planning activity is financed with \$480,000 (not \$500,000) appropriated by the Congress in Fiscal Year 1982. The design work is progressing and is scheduled to be completed in July 1984.

The Republic of Palau is submitting to the Congress, under a separate cover, a request for \$18,000,000 for the construction, equipping and furnishing of the newly proposed Palau National Hospital to be located in the state of Koror.

Because the present McDonald Memorial Hospital site has been committed as the location of the new facility, the project is being carefully planned so that the demolition of old buildings and new construction are to be phased in a manner to keep the existing hospital in full operation at all times. Because of the complexities involved in temporary relocations, incremental demolition and new construction, the total construction period is estimated to be from 30 to 36 months.

Question: Why has this planning taken so long?

Answer: OTIA

Procurement of architectural/engineering services for planning projects in Micronesia is time consuming because of the fact that such services have to be solicited from outside sources, since no expertise is to be found in Micronesia. This plus the regulations and procedural requirements of Federal Procurement which the Republic of Palau must be in compliance with, tends to make any planning project time consuming.

Question: What is the current status of road construction on Palau and what necessary construction outside of Koror remains to be completed?

Answer: Republic of Palau

All Capital Improvement Program related road projects have been concentrated in the Koror-Arrai area. Some 13 miles of roadway has already been paved and 4 miles of roadway in Koror is presently under construction. Approximately 5.5 miles of important roads in Koror still remain to be improved. The required improvements, consists of roadway pavement, drainage structures, railing, walkways, etc.

Funds in the amount of \$6,000,000 are needed for these road improvements as follows:

- (a) \$1,500,000 to cover a shortfall being experienced with the ongoing road construction project presently administered by the United States Navy due to an unforeseen need to replace a badly deteriorated seawall along T-dock causeway, an extremely high water table in the Harris Elementary School area requiring extensive road underdrainage and the need to extend sewer laterals beyond the edges of the roadway missed in previous CIP sewer projects.
- (b) The remaining \$4,500,000 is requested for the design and construction of the remaining 5.5 miles of important roads in Koror.

Under a separate cover and titled "Koror Roads Improvements", a detailed justification for the \$6,000,000 is being submitted to the United States Congress for consideration.

It has been mentioned that all CIP related road construction projects have been concentrated in the Koror-Arrai area. The full potential of Bebelthau Island, the second largest land mass in Micronesia (second to Guam) can only be realized if a system of all-weather roads is developed on the island. The Republic of Palau has successfully obtained approximately \$1,000,000 in grant aid assistance from the Government of Japan. These funds have been invested in heavy construction equipment for farm road building, farm machinery and deforestation equipment. The FY 1985 budget request of \$6,000,000 is to supplement the aid assistance already granted by the Government of Japan. The granting of \$6,000,000 by the United States Congress for development of Palau farm roads will positively have an important impact on the socio-economic development of the Republic of Palau when considering that the following can only be realized when farm roads are developed:

- Cultivation of more land in coconut will provide some of the necessary copra to support the Koror-based Micronesian Industrial Corporation, a coconut oil factory
- Cultivation of lands suitable for timber trees will in the long range, eventually minimize the need for importation of lumber to Palau
- The development of a viable agriculture base in the various outlying areas will provide the food supply necessary to feed the nation's population, thereby decreasing the necessity to import
- The project will at least provide, on a temporary basis, employment for the many unemployed
- The connection of municipalities to the north of Arrai to the Koror-Arrai area by road will certainly attract some of the many unemployed presently living in the overcrowded administrative center of Koror, back to their own municipalities where they can be productive workers in crops production and cultivation of coconut and timber trees.

Answer: OTIA

The road construction on Palau has increased by 7 miles to a total of 17 miles. The original 5-year CIP scope addressed primary roads only. However, with the use of FY 1983 funding, an additional 7 miles of secondary roads will be paved with a scheduled completion date of August 1985. All scope has been increased. Road work outside of Koror is a project scheduled during the Compact of Free Association.

Question: What are the costs associated with this additional road construction activity?

Answer: Republic of Palau

Approximately \$2,000,000 of the amount being requested will be utilized to purchase additional heavy and road construction equipment and the remaining \$4,000,000 will be used for procurement of spare parts and fuel for the equipment, required design/engineering services, construction materials, labor and coconut and other seedlings. The scope of the project entails the development of 10,000 acres of coconut, forestry and general agriculture lands on the islands of Babelthau, Peleliu, Anguar, Kayangel and other minor islands.

Under a separate cover and titled, "Palau Farm Roads Improvements", a detailed justification for the \$6,000,000 is being submitted to the United States Congress for consideration.

This rural road construction program is a continuous effort which may take up to 10 years to conclude. The \$6,000,000 presently being requested should be sufficient to keep the program going in the next three years after which additional funds will be requested from the Congress to continue the program.

Question: What is the status of the new airport runway and terminal construction project? When will these projects be totally complete, what remains to be done, and what federal and other costs are associated with this remaining work?

Answer: Republic of Palau

The new airport runway has been completed according to the original scope of the project, and is now in use. This project was funded by CIP funds granted by the United States Congress.

The airport terminal facility is currently under construction and is scheduled to be completed in August 1984. The construction of the terminal facility is undertaken by Arrai State and is financed by Japanese private funds.

The following remaining work with corresponding cost-estimates are required to make the Palau International Airport fully functional:

- (a) \$165,000 for a 150-car parking lot
- (b) \$250,000 for procurement of fire fighting equipment
- (c) \$35,000 for a 24 feet x 35 feet structure to house the fire fighting equipment.

The total amount required for this additional work is \$450,000.

Answer: OTIA

The new airport runway was completed in November of 1983 and turned over to the Government of Palau. The airport terminal is currently under construction and is scheduled to be completed within 12 months. The terminal is being financed by a loan from a private Japanese Company to the State of Arrai (\$4,000,000). No additional funding is required for the airport project.

TERRITORIAL AND TRUST TERRITORY ADMINISTRATION

Question: Please provide for the record a description of methodology used by the Department to prioritize and approve technical assistance grants. Also for the record, please identify those specific actions taken by the Department to solicit TA application and to provide assistance to the island governments in developing TA applications.

Answer: OTIA

Because we are dealing with a specific and limited list of eligibles (only the governments of U.S. territories or the Trust Territory), the Department does not have a formal grant application process as do most Federal grant programs. At least once each year, the Department solicits from the governments, a listing of supporting data for technical assistance needs. The Director of Technical Assistance, as well as other OTIA management staff, are now spending as much time as possible in the territories so that we review with them their list of needs and also can react quickly to special or emergency needs and problems as they arise.

Several criteria have been used in determining which needs to fund first and which have the highest priority. From its inception, the first priority of the program was to install good, working, and usable financial management systems in the territories and to train local staff in the use of the systems. With these systems near completion, our focus and highest priorities now are on funding projects that spur economic development or that increase the efficiency of the governments. However, we do try to fund a wide range of projects, based on government priorities and special situations. Thus, for example, a major technical assistance effort was directed towards the cholera problem in the Federated States of Micronesia.

There are several methods by which technical assistance is provided. The most common is a memorandum of understanding between the Assistant Secretary, Territorial and International Affairs and the head of government in the territory. The memorandum spells out how much money will be provided, the specific task to be performed, and all reporting and other over sight requirements. We also provide direct expertise by using our own staff, contracting with private companies or individuals, or soliciting help from other parts of the Department or the Federal government. Our preference is to use Federal experts whenever possible, since we can usually obtain these experts on loan at no cost other than paying for travel to the territories.

Question: For OTIA Administration, you have requested an FY 1985 budget of \$2,828,000, which is a 37% increase over the 1984 appropriated level of \$2,070,000. How can you justify such an increase?

Answer: OTIA

During fiscal year 1982, the U.S. Comptrollers were transferred from the Office of Territorial and International Affairs. Since OTIA and the Comptrollers were funded from the same account, the account had to be split. FY 1983 was our first year's experience under the split account. OTIA found that it could not fund all of its authorized positions. As a result vacant positions were left vacant. Most of these vacancies were in the technical assistance program in the field, since this was a new program.

Our FY 1985 request does not fund any new positions or higher grades for existing positions. The intent is to provide sufficient money to fill vacancies in the territories and pay for increased travel by Washington-based staff to the territories. We believe that funding both of these needs is essential to the success of our program.

Question: For Operations and Maintenance under the Trust Territory Operations, you have proposed to decrease budget from the 1984 level of \$7 million to just \$3 million in 1985. As this program has assisted and can continue to assist the governments with necessary training and identified equipment and supply costs, why are you proposing such a dramatic decrease? Is the \$3 million figure based on the costs of specific plans or was the number more or less "pulled out of the air"?

Answer: OTIA

The \$3 million requested in 1985 is the amount estimated to be necessary to continue the significant progress achieved under the operations and maintenance program. A significant amount of the funds provided in FY 1983 and FY 1984 has been devoted to one-time costs necessary to establish an adequate operations and maintenance program in the three Micronesian governments. Such one-time costs have included stockpiling of spare parts and supplies and acquiring shop tools and specialized equipment to operate carpentry shops, plumbing shops, electrical shops, auto repair and maintenance shops, air conditioning and refrigeration shops, and similar specialized trade shops. The funds have also been used to purchase new or to replace deteriorated heavy equipment necessary for proper operations and maintenance activities. The balance of funds has been used for the hiring of experts and training of local personnel as well as for certain renovation activities. Since most of the one-time costs associated with establishing a capable operations and maintenance program have been funded, funding levels may now be reduced in order to maintain these enhanced operations and maintenance capabilities. The requested funding should be sufficient to continue those operations and maintenance programs previously established, as well as to hire necessary experts and train local personnel in the operations and maintenance of infrastructure and public facilities. The FY 1985 request of \$3 million should be sufficient to continue these programs.

Question: In general, what is the Department's assessment of the enhanced O&M program? Are there steps that Congress should take to improve it?

Answer: OTIA

There is no question as to the need for an enhanced O&M program. If the U.S. desires to protect its own capital investments (in excess of \$300 million) and desires to provide the Micronesian governments with a long lasting and usable infrastructure, the program must continue.

In some ways it is too early to assess the program. The first large infusion of money was an \$8.7 million appropriation in FY 1983. Plans submitted by the governments for the use of this money were completed and approved until late in FY 1983. Most of the money has not been obligated or expended by the governments. None of the FY 1984 appropriation has been obligated.

We believe the program is too important and too complex to be run solely by the government without technical assistance and guidance or to be administered by the

existing limited staff in the Trust Territory headquarters or OTIA. OTIA is therefore, currently recruiting an expert engineer and administrator to run the program.

We are concerned that the governments are viewing this program for purposes other than those intended by Congress and the Department. Requests have been made for a variety of renovations and building projects outside the capital improvement program. Public work budgets have been reduced. Greater emphasis is being placed on requesting O&M funds for immediate renovations and equipment purchases rather than the planning and training that help ensure a long-lasting program.

We believe the program needs strong and firm guidance and administration. This is why OTIA is hiring an expert. Beginning in FY 1984, we do not intend to merely allocate the money to the governments on a pro-rata basis; but to provide funds based on needs and based on the government's willingness and ability to put together (with our assistance) workable programs that demonstrate good planning and resource allocation.

Question: What is the current operational status of the satellite communications and phone systems on each of the islands?

Answer: OTIA

All seven (7) satellite communications stations (COMSAT) are operational and have been since 1983.

During March and April of this year, all international switches, all COMSAT interface equipment, and all message timing computers were realigned and adjusted so that all units were working at top efficiency.

In addition, we have ordered seven (7) regulated power units with back-up batteries to control power fluctuations and outages.

Question: The Committee continues to receive reports that the TT Headquarters facilities on Saipan are not being maintained as directed by the Congress. Are you maintaining these facilities properly and taking steps to upgrade facilities where necessary? Please provide for the record a list of such specific actions you have taken in the past year to meet the Congressional directive.

Answer: OTIA

Trust Territory Headquarters facilities are being maintained properly and an ambitious and continuous maintenance program is in existence. The Committee must be aware that the High Commissioner and her staff occupy/use these facilities daily. (We would appreciate knowing the source of these "reports" and their specific complaints. This information would enable us to better respond to this question).

Since this subject became an issue, we have turned over to the Government of the Northern Mariana Islands four major administrative buildings -- three in January/February, 1983, and a fourth last month. With these transfers, we have passed to the CNMI approximately \$194,000. While routine repair and maintenance is an on-going program, we have cooperated with the Government of the Northern Mariana Islands by passing on to them certain repair and maintenance funding to assist them in maintaining these facilities.

In addition to these four major administrative buildings, we have transferred numerous housing units -- each with a specific amount of funding for repair and maintenance.

Question: Despite the fact that oil prices have remained fairly consistent, it nevertheless does seem prudent to plan for any emergency in this regard. Don't you agree that it makes sense to put even a minimum level of funding in the contingency reserve?

Answer: OTIA

There is \$750,000 that was appropriated in FY 1984 for contingencies/claims. We believe that most of this money will be used for claims, but it could be used for oil price contingencies if the situation called for it.

Question: Has the Department taken an official position on the issue of paying prior service benefits to TT employees after the compact goes into effect? If so, please provide your position in this regard in detail for the record. If you have not yet done so, please provide an explanation of why you have not and when you expect to formulate such a position.

Answer: OTIA

The prior service benefit program was conceived, sponsored, and enacted by the Congress of Micronesia in late 1967 - early 1968. While the High Commissioner approved this legislation, he was basically dealing with a Trust Territory Social Security program, with a prior service "rider".

The program was intended to accommodate employees who would retire prior to the implementation of the Trust Territory Social Security System or who did retire prior to building up any equity in that Social Security System. It was, in our opinion, not intended to provide dual or overlapping benefits. As a consequence, over the years, the beneficiaries have qualified for both prior service benefits and Social Security benefits. One way of reducing total future costs would be by permitting a beneficiary to receive only a maximum of total benefits equal to the Social Security maximum.

Secondly, the benefits (under prior service) have been increased by the Trust Territory Social Security Board without any approval or review by the High Commissioner or the Department of the Interior. As a consequence, our costs have increased by virtue of this unilateral and unpoliced action. The Department is thoroughly convinced that the total projected costs reflect anticipated future increases (in benefits).

If this program is to be conducted during the compact or post-trusteeship period, which the Department does not support or recommend, certain specific decisions should be made regarding future administration. It is almost certain that the Trust Territory Social Security program will be fragmented and taken over by the three constitutional governments with each operating/ administering their own program. Hence, there will be no single Trust Territory Social Security Administration, as now exists. In order to ensure that funds appropriated by the United States Congress are not also decentralized and distributed among the three constitutional governments, there should be an administrative office identified (under U.S. jurisdiction) and charged with the responsibility of administering the prior service benefit program should it continue to be funded during the compact or post-trusteeship period.

It is important to note that controlling future benefits may greatly reduce the projected total costs.

Question: What is the current status of the medical referral program, what can the island governments reasonably do to meet prior obligations, and what should be done in the future to reduce new obligations?

Answer: OTIA

The medical referral program is and has been a locally managed program for several years. While each government began by following/adopting the policy established by the Trust Territory, each government has now amended and revised its medical referral policy to suit its own needs and priorities.

Prior obligations will be difficult to meet (fund) as the program became heavily indebted before amendments and/or revisions were considered and subsequently implemented. A reasonable and regular repayment schedule, over a period of years, would seem the best method to meet prior obligations incurred after October 1, 1981.

In very recent years, as we mentioned above, each constitutional government has taken steps to reduce, by more thorough control, its new obligations. These controls involve the creation and implementation of local medical referral committees, stricter policies regarding escorts, and the requirement that patients pay part or all of their transportation costs, among others.

Question: Should the Department of the Army be requested or directed to forgive past debts?

Answer: OTIA

That would be a simple solution to the problem, but it would probably do little to prevent future recurrences. We believe the Department of the Army deserves to be paid for the services it has performed, but must also recognize the unique financial and political situation in the territories. That is why the Department is proposing a plan that calls for reasonable payments toward past due bills, increased technical assistance to reduce future referrals and continued service by the Army hospital.

Question: Please provide for the Committee's files as quickly as possible, an updated CIP report on a project by project basis. In responding to this request, please merely add an addendum, where appropriate, to the comprehensive CIP report provided to the Congress last year.

Answer: OTIA

A complete update is being provided. (Appendix F)

QUESTIONS SUBMITTED BY SENATOR LOWELL P. WEICKER, JR.

PALAU

Background: The Palau Government is weak and there is infighting among the various islands. Some politicians have been able to get approval for "pork-barrel" projects to be built by other nations despite a large debt. Unfortunately, it may be U.S. taxpayers who will eventually be asked to pay for these projects.

I understand that the Palau Government agreed to purchase a British power facility which far exceeds their current power requirements. Can you explain whether this was a wise investment and, if not, why was it allowed to proceed?

Answer: OTIA

We do not believe the purchase of the British power facility was a wise investment and advised Palau to that effect. However, Palau has its own constitutional government and they must be allowed to make their own choices within the framework of their constitution and laws. The Department has no legal basis to prevent Palau from entering into a contract with a British firm. The Department has also made it clear to the Palau Government that we will take no action to bail them out if they default on their loan agreement with the British bank.

MICRONESIA

Question: I understand that there is a proposal to limit clean water act funds to advanced treatment only. If this happens, do you believe that we should consider an exemption for the Trust Territories so that they will continue to be eligible for basic sewage treatment?

Answer: OTIA

The December 1981 amendment to the Clean Water Act, specifically section 201(g) (1), eliminates collection systems as items eligible for EPA grants. A collection system is defined as a system that collects waste from individual houses and transports it to a treatment plant. In other words, main sewer lines and sewer laterals to individual houses. This provision was included in amend-

ments to the Act because EPA believes that existing needs for collection systems in the U.S. have been met and that future expansion of the systems should be funded by state or local governments and not by the Federal Government. This provision becomes effective October 1, 1984.

Unlike the States, the majority of the sewage treatment needs in the trust and other U.S. territories is still in basic collection systems. In many cases, basic systems are not yet in place. The need is really one of public health rather than merely water quality. Sources of funding, other than the current EPA grants, for this type of basic infrastructure are limited. Therefore, the Department believes it is essential that strong consideration be given to exempting the Trust Territory entities and other U.S. territories from the limitations imposed by the amendments to the Clean Water Act.

Question: I see that the Administration proposes a cut of \$1.6 million for the Federated States of Micronesia health services because the cholera epidemic is now under control.

Is everything being done to make certain that the cholera epidemic is completely under control and will not reoccur?

Answer: OTIA

Congress has appropriated \$3.6 million in the past two years for cholera eradication. In addition to the funds, the Department has provided technical assistance from its own resources and has enlisted and coordinated assistance from other Federal agencies and health organizations. While cholera will remain endemic in Truk, just as it is in parts of the United States and other parts of the world, the recent epidemic is now under control. The number and severity of new cases has been reduced dramatically. A cholera eradication plan has been agreed to by all parties and is being implemented as quickly as is feasible. The plan is fully funded.

TRUST TERRITORY

Question: How did the Department arrive at its total estimated costs for capital relocation of \$21 million, divided \$15, \$3, \$3 between Micronesia, Palau and the Marshall Islands? These numbers appear to be artificial, was an analysis of needs and costs made?

Answer: OTIA

The original commitment of \$21 million was developed and agreed to through a committee effort. The committee was composed of Trust Territory Government, Department of the Interior and Micronesian representatives. This commitment was made before Micronesia chose to divide itself into three constitutional governments rather than one. The purpose of the \$21 million commitment was a contribution by the United States towards the construction of capitol facilities. It was not intended necessarily to build an entire city or to provide additional facilities other than those necessary to house the new government.

The Republic of Palau has not yet made any firm plans or completed designs for their facility. The Republic of the Marshalls requested assistance from the Trust Territory government in designing their facility. The Trust Territory performed the basic architectural and engineering design which has been approved by the Marshalls. The Federated States of Micronesia was offered similar assistance but declined the offer. We have seen none of the details of their plan.

GUAM

Question: With respect to the Penitentiary construction in Guam, does your office have an estimate of what it would cost to complete a detention center to meet the justice needs of Guam?

What is the estimate?

How much of that cost can the Government of Guam realistically assume?

Answer: OTIA

We believe the current construction contract for the penitentiary of which the work is 98 percent completed, will meet the justice needs of Guam. In constructing the facility, Guam has exceeded the original grant of \$6.5 million by approximately \$2.3 million. Guam has now requested and received tentative approval from the Assistant Secretary for Territorial and International Affairs, to reprogram approximately \$1.3 million of the estimated shortfall. If the Appropriations Committees also approve the reprogramming proposal, Guam will have to fund the balance of approximately \$500,000 from their own revenues. We believe this is a realistic contribution.

Question: I understand that Guam has sought funding for hospital renovations and a dispensary. Briefly, what types of renovations are we talking about, and how would they affect the quality of health care?

What is the Administration's position on this budget request?

Answer: OTIA

The proposed renovations would improve primary health care by providing new or renovated facilities for long-term illnesses, mental illness and geriatric care. The Administration believes that necessary improvements must be made to restore the hospital's accreditation; but the Government of Guam must first make some type of financial commitment to meet at least some of the costs. We are also concerned that any improvements made are for the purpose of restoring accreditation.

NORTHERN MARIANAS

Question: The budget justification for the Northern Marianas states that the funds available for hospital construction now exceed the Administration's pledge of \$15 million. Therefore, no further funding will be sought.

Without additional Federal funding is it your opinion that construction will be halted?

Answer: OTIA

Congress has already appropriated \$20 million for construction of the hospital. Based on the construction contracts let, this should be sufficient to cover actual construction costs. In addition, under the Covenant, the Northern Mariana Islands Government receives approximately \$8.0 million in additional construction funds which could be used to complete construction of the hospital if necessary.

Question: Have the total costs been determined by the Interior Department for this project? If not, why?

Answer: OTIA

Yes. The Interior Department estimates that \$26-27 million will be necessary to complete construction and equip the hospital in accordance with the original scope of the project.

Question: How much funding can the Northern Marianas realistically be expected to provide?

Answer: OTIA

The Northern Marianas Government receives substantial construction funds under the Covenant each year. In FY 1985, approximately \$8.0 million will be provided. The use of these funds is at the discretion of the Northern Marianas Government. Therefore, they can allocate whatever portion of the annual Covenant construction funds to the hospital that they so choose.

CARIBBEAN

Question: Do you believe that the Administration's budget request for Puerto Rico and the Virgin Islands adequately reflects the U.S. commitments in the Caribbean?

Answer: OTIA

The U.S. is firmly committed to furthering economic growth and development in the Caribbean. The Administration believes that the best way to honor this commitment is to assist the governments in the region to develop strong private sector economies, which in turn will provide a solid tax base, making the governments themselves increasingly self-sufficient and self-sustaining. The Administration's budget request for the Virgin Islands, for which the Department of Interior has responsibility, does reflect this commitment. It provides funds for technical assistance in the areas of financial management and economic development. The budget request does not include any capital improvement construction funds. However, the V.I. did not submit an FY 1985 request for such funds to the Administration for its consideration.

No comment is offered on the budget for Puerto Rico as it is not under the jurisdiction of the Department of the Interior.

Question: What can we expect people to think of the United States if we are willing to send troops into other Caribbean and Central American countries, but are not willing to fully commit ourselves to the welfare of our own citizens and territories in the region?

Answer: OTIA

The Department believes the United States has always been and still is committed to the welfare of its own citizens and territories in the Caribbean. Over the years countless millions in capital improvement, economic development and technical assistance funds have been poured into the region. The primary goal has always been continued economic development and increase self-sufficiency for the region. The Administration believes the best way to achieve this goal is through increased private sector investment and development of a strong private sector economy. The V.I. particularly, stands to benefit from this economic philosophy. It, of all the regions, has vast economic development and private investment potential. This potential was the subject of a recent Caribbean Basin Initiative Conference held in St. Thomas and St. Croix, jointly sponsored by the Department of Interior and V.I. Congressman DeLugo.

VIRGIN ISLANDS

Question: I understand that the Virgin Islands have asked for \$2.0 million to upgrade financial management, \$2.0 million to set up an Eastern Caribbean Center of the College of the Virgin Islands and \$600,000 to do engineering and design for extension of the runway on St. Croix. Why were these funds not requested from Congress?

Answer: OTIA

These funds were not requested from Congress because the V.I. did not request them from the Administration. The V.I. did not submit an FY 1985 budget request to the Administration for its consideration. However, we would like to provide some comments on these projects.

Early in 1983, the Department of Interior gave the V.I. two technical assistance grants of \$150,000 each for financial management and the Caribbean Center of the College of the V.I. Apparently, the financial management funds were misused resulting in an Inspector General investigation. The matter is now before the courts for resolution. We believe it is proper to resolve this issue prior to deciding to grant additional funds for a similar purpose.

With respect to the request for the Caribbean Center, the College of the V.I. has used only \$8,000 of the original grant for this purpose, and there seems to be little indication of intent to use the remainder in the near future. It is

difficult to support additional funds for the Center until those already provided are expended.

It is our understanding that the design of the St. Croix runway extension can be funded through the FAA.

Question: When you consider the funds available to other nations thru A.I.D. and the Department of Defense, nations such as Grenada, how can you possibly justify not funding for education and basic construction for our own people? These projects are authorized and should be commitments which are fully supported by the U.S. Government?

Answer: OTIA

Every year there are millions of dollars provided to the Virgin Islands through various grants from the Department of Interior and other federal agencies. There is no question that the U.S. is firmly committed to education and basic capital improvement needs in the Virgin Islands. However, we believe that the Virgin Islands should be encouraged to further develop the vast economic potential it possesses as a means of financing its needs, and to decreasingly rely on Federal grants for funds. This can best be achieved through development of a strong private sector economy and the use of private investment as a primary financial tool. The Caribbean Basin Initiative Conference, co-sponsored by the Department of the Interior and V.I. Congressman DeLugo, and held recently in St. Thomas and St. Croix, was specifically designed to address this topic. In addition, the Department of Interior has provided technical assistance funds for this purpose and has recently hired a technical assistance representative to be placed in the V.I. and assist the Government in this endeavor.

SUBCOMMITTEE RECESS

Senator JOHNSTON. The subcommittee will stand in recess until 2 p.m., Tuesday, May 8, when we will review the fiscal year 1985 budget request of the Office of Surface Mining Reclamation Enforcement.

[Whereupon, at 3:20 p.m., Thursday, May 3, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, May 8.]

DEPARTMENT OF THE INTERIOR AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1985

TUESDAY, MAY 8, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD-138, Dirksen Senate Office Building, Hon. James A. McClure (chairman) presiding.

Present: Senators McClure and Byrd.

DEPARTMENT OF THE INTERIOR

OFFICE OF SURFACE MINING RECLAMATION AND ENFORCEMENT

STATEMENT OF J. LISLE REED, ACTING DIRECTOR

ACCOMPANIED BY:

DEAN K. HUNT, ACTING DEPUTY DIRECTOR

BRENT T. WAHLQUIST, ACTING ASSISTANT DIRECTOR, TECHNICAL SERVICES AND RESEARCH

CARL CLOSE, ACTING ASSISTANT DIRECTOR, PROGRAM OPERATIONS AND INSPECTION

CARSON W. CULP, JR., ASSISTANT DIRECTOR, BUDGET AND ADMINISTRATION

EDWARD BONEKEMPER, ASSISTANT SOLICITOR FOR GOVERNMENTAL RELATIONS, OFFICE OF THE SOLICITOR

KRISTINE M. MARCY, DEPUTY DIRECTOR, OFFICE OF BUDGET

BUDGET REQUEST

Senator McCLURE. The committee will come to order. This is the time scheduled to review the fiscal year 1985 budget request for the Department of the Interior's Office of Surface Mining Reclamation and Enforcement.

The Office of Surface Mining Reclamation and Enforcement's fiscal year 1985 budget request of \$361,390,000 represents an increase of \$24,712,000, or 7 percent, over the fiscal year 1984 appropriations. Pending before Congress are 2 fiscal year 1984 budget supplements—a request of \$470,000 for increased pay costs, and a request for \$4,775,000 for the Federal regulatory programs.

Appearing on behalf of the Office of Surface Mining this afternoon will be its new Acting Director, J. Lisle Reed.

PREPARED STATEMENT

Mr. Reed, we welcome your appearance before the subcommittee. If you will please introduce the associates who may be assisting you this afternoon, we will proceed directly to the questions. Your full written statement will be made a part of the record at this point.

[The statement follows:]

STATEMENT OF J. LISLE REED

It is a pleasure to appear before you to discuss the Office of Surface Mining's Fiscal Year 1985 budget. In past hearings, OSM's presentations devoted major attention to the policy, organizational, and procedural changes that were taking place in the agency. Now, however, these initiatives are in place, and current activities involve rounding out the framework developed for OSM's programs. My discussion of the budget will emphasize these activities.

A brief review of the last three years at OSM shows how far the agency has come and why we now stress improvements to current programs rather than major policy changes. At the onset of this Administration, development of State regulatory programs had barely started, and State reclamation programs were nonexistent. The Federal program was responsible for the major share of regulatory and reclamation program operations, contrary to the intent of Congress, which expected a steady transition to State operations in enacting SMRA. Direct management of these programs reduced OSM's ability to provide States with technical assistance for developing and operating their own programs, which the Act intended them to do. In many respects, then, OSM and the States were stalled at the post.

Now, however, most coal mining States are operating effective regulatory and reclamation programs. OSM has emerged as a mature and stable organization that carries out its mandates efficiently and effectively, under a responsive headquarters and field organization. Our regulatory reforms are enabling us to meet the Act's objectives in a manner that is both rigorous and reasonable. Innovative approaches to problem solving are being fostered. As the 1985 budget shows, the Administration's commitment to support State programs and ensure OSM's continued ability to meet its goals remains firm. While OSM's framework and policies are in place, a number of areas require greater emphasis and renewed commitment so that we can maintain the quality of our programs. The 1985 budget, if enacted, will help meet these needs by strengthening current efforts and supporting new ones where necessary.

OSM's 1985 budget request of \$361.4 million is the largest ever proposed, and represents an increase of \$22.2 million from the 1985 base. Over \$300 million of the request is earmarked for State regulatory and reclamation grants. The proposed level for the latter represents a nine-fold increase from 1981.

The request for Regulation and Technology is \$69.7 million, an increase of \$2.5 million from the 1985 base. A 1984 supplemental appropriation of \$4.8 million is also proposed for Federal Regulatory Programs, as is a small pay supplemental.

We propose \$39.1 million for State Regulatory Program Grants, an increase from the base of slightly over \$1 million. This will continue support for primacy States and for cooperative agreements with States that have been delegated the authority for regulatory operations on Federal lands. In addition, our report on legislative options for allowing Indian Tribes to achieve primacy has been developed and transmitted to the Congress. The 1985 budget assumes that enactment and rulemaking will not be completed prior to 1985, and therefore does not include grant funding for Tribes. It does, however, include special cooperative agreement funding for three Tribes that will help them develop the skills needed to operate programs. As a result, these Tribes will be able to implement approved regulatory programs very soon after the necessary authorities are put in place.

Our request for Program Operations and Inspection is \$13.1 million, a \$1.0 million increase from the base. The oversight program ensures that State performance is thoroughly and candidly evaluated, and our field offices are providing sound, practical assistance to States in all aspects of program management. The random sampling approach to oversight inspection has proved cost effective and informative, and our continued evaluations are leading to refinements where needed. Our State program evaluations have shown that the vast majority of primacy States are operating sound programs. At the same time, however, we have not hesitated to act when problems are disclosed. In December and January we conducted hearings in Kansas, Oklahoma, and Tennessee. Under the authority of 30 CFR 733, Director Harris had sent

letters to the governors of those States which outlined serious problems. We have now decided to initiate Federal inspection and enforcement in Tennessee and Oklahoma; given the severity of the program implementation problems, this was our best alternative. This partial Federal program takeover may be expanded further in Tennessee, since Governor Alexander has proposed to the State Legislature that the program be returned to OSM.

A portion of our 1984 supplemental appropriations request will help to finance the actions in Tennessee and Oklahoma, but most of the funding for this year will be made available through exercise of the special transfer authority provided by Congress in section 102 of the General Provisions in the Department's Appropriations Act. A proposal concerning 1985 costs in Tennessee and Oklahoma is now under review by the Department and OMB.

We have made major progress in completing responsibilities related to the Gasch and Parker court orders. With respect to the Gasch order, our efforts were recently complicated by an additional order issued on January 31, 1984, in which the Judge directed OSM to make written determinations within thirty days on whether to impose individual Section 518(f) civil penalties on 1,977 cessation orders. We successfully met that deadline. It should be noted, however, that we had already established a task force and an administrative apparatus which reviewed almost 18,000 cases prior to this latest order. Most of the cases that Judge Gasch required us to act on were already being processed under the Parker order, which, as you know, concerns failure-to-abate cessation orders issued during the interim program. However, we assembled a special task force of 60 people to comply with the court's directive. We will now resume processing of other cases subject to the original March 30, 1980, Gasch order which are not covered by the January 31 order, and continue our pursuit of alternative enforcement for cases previously covered by the Parker order.

The request for Technical Services and Research is \$10.6 million, an increase of \$504,000 from the base. In addition, \$2.7 million of our 1984 supplemental appropriations request is earmarked for this subactivity. Our technical services program is now fully established. The two technical centers provide comprehensive assistance on a full range of regulatory and reclamation problems. The budget request assumes that all technical services program components will be maintained at current levels, except for mine plan review on Federal lands, for which the increase and the 1984 supplemental are earmarked. The workload in this area will peak in 1984, and return to a more modest level in 1985. The budget request indicates our commitment to process the mine plan review backlog quickly rather than allow it to be permanently established as a major program area.

Our General Administration request is divided between the Regulation and Technology and Abandoned Mine Reclamation Fund appropriations. The total request of \$11.4 million will maintain services at the base level. Aside from increased office space costs, an essentially uncontrollable item, we have held our administrative expenses relatively constant even as our budget has increased, and we expect this record to continue.

The request for the Abandoned Mine Reclamation Fund appropriation is \$291.7 million, an increase of \$19.6 million from the base. This request exceeds anticipated 1984 Fund receipts by over \$84 million, and demonstrates our commitment to fund work that States can accomplish in the time frame under the Act.

We propose \$263 million for State Reclamation Program Grants, an increase from the base of over \$27 million. The increase for States is actually greater still, because \$42 million of 1984 funds were earmarked for mitigation efforts related to the Centralia mine fire. Considered in this light, the net increase from 1984 is over \$69 million, or nearly 36 per cent. The States' efforts are increasingly comprehensive and sophisticated. They are now managing complex projects of the type that only a few years ago appeared likely to require Federal management for the life of the program. We are pursuing our commitment to seek a level of funding that the States can effectively administer. This will ensure rapid reclamation of abandoned mine lands and yield maximum benefits from the revenues anticipated over the life of the program.

The request of \$6.7 million for Reclamation Fund Management efforts is an increase from the base of \$200,000, which will enhance our reclamation program oversight systems, especially those for monitoring State grant administration. This increase in resources is consistent with the expanded level of State programs. Other areas of this subactivity will be maintained at current levels. The fee compliance program is functioning effectively, achieving an extremely high level of compliance that has been verified by the General Accounting Office. We are especially pleased with the results obtained by use of a private firm to collect past due mining fees. The National AML Inventory, which is also maintained under this subactivity, is now being updated with information supplied by States. It is a useful tool in program planning, and its value will further increase as it is updated.

We are proposing \$13.8 million for Federal Reclamation Projects, a decrease from the base of \$705,000. The decrease is possible because State program growth enables us to reduce direct Federal project management yet maintain a strong emergency projects program. Despite the overall reduction, however, we propose to initiate a \$2 million research and development program within this subactivity. This effort will provide cost-effective solutions to reclamation problems commonly faced by States. It will proceed according to an annual agenda developed through consultation with States and Tribes. Increased research and development activity is consistent with OSM's desire to assist States in solving problems, and represents a proper leadership role for the Federal program. It is far more effective than allowing States to fund research projects themselves, since their projects seldom have wide applicability, and also reduces the amounts available for higher priority projects. We know that many problems could have been resolved at a fraction of current costs if better technology had been available. Consequently, we are confident that the research program will yield significant returns from what is a rather modest investment.

The request of \$3.7 million for the Rural Abandoned Mine Program represents a decrease from the base of \$7.0 million. This reflects the Administration's desire to fund projects previously managed by the Department of Agriculture's Soil Conservation Service through the expanded State reclamation grant program. It is also consistent with the action of this Committee on OSM's Fiscal Year 1984 budget. Reducing direct Federal involvement in this way is more cost effective, will ensure greater conformance with the Act's priorities, and will also improve coordination with State efforts. The proposed funding level will provide support for completion of existing projects.

In summary, OSM's prospects are encouraging. The agency has helped to develop capable State programs, and has also established strong Federal technical assistance and oversight programs. OSM's goal has been to create a climate in which excellence and innovation can flourish at OSM and in the States. The agency is meeting this goal, and I promise that its efforts will continue in this regard.

I will be glad to respond to any questions.

BIOGRAPHY OF DEAN K. HUNT

Mr. Hunt was born in Troy, New York in 1949. He holds a B.S. degree in Engineering from Bucknell University, 1971; a M.S. degree in Engineering from Bucknell University, 1979; and a J.D. from the University of Louisville, 1977, where he graduated Magna Cum Laude. Mr. Hunt also is a registered Professional Engineer.

Prior to his appointment as Deputy Director of the Office of Surface Mining, Mr. Hunt served as the Assistant Director for Technical Services

and Research. In addition, he was employed by D' Appolonia Consulting Engineers in Pittsburgh, Pennsylvania. Mr. Hunt was involved in areas such as coal mining evaluation; mine design; permitting; analysis of regulatory programs, design of off-shore structures, ports, and hazardous waste disposal facilities; and preparation of environmental assessments.

BIOGRAPHY OF BRENT T. WAHLQUIST

Dr. Wahlquist was born in Roosevelt, Utah, March 28, 1942. He holds a B.A. degree in Botany from Brigham Young University, 1967; a M.A. degree in Botany from Brigham Young University, 1969; and a Ph.D. in biology and chemistry from New Mexico State, 1971.

Prior to his appointment as Acting Assistant Director, Dr. Wahlquist served as Deputy Director, West Virginia Department of Natural Resources (1982 - 1983). He was responsible for managing the Reclamation Division and the Water Resources Division. Dr. Wahlquist has also served as Manager, Environmental Control, with the Carbon Fuel Company, Charleston, West Virginia (1978 - 1982); Environmental Coordinator, Coal Operations, with the Rocky Mountain Energy Company, Denver, Colorado (1977 - 1978); and Environmental Consultant - Power Plants, Coal Mines, with Westinghouse Electric Corporation, Pittsburgh, Pennsylvania (1971 - 1977).

Dr. Wahlquist is married to the former Diana Garlock and has six children.

INTRODUCTION OF ASSOCIATES

Mr. REED. Thank you very much, Mr. Chairman. On my far right is Dean Hunt; next to him, on my immediate right, Mr. Pete Culp; on my far left is Mr. Brent Wahlquist; and on my immediate left is Mr. Carl Close.

POTENTIAL PRIMARY STATES

Senator McCLURE. Thank you very much. The Office of Surface Mining assists the States in the development of programs to regulate surface mining within their borders. To date, 25 States have achieved primacy. Only one State, Alaska, has achieved primacy in the last year and a half. Is this the number of States that you feel will continue to make up the State Regulatory Program grants? Do you expect other States to achieve primacy?

Mr. REED. It will be for fiscal year 1985. There are two other States that could become primacy States at some point in the future—Washington and Georgia. But we do not know when they will be prepared or want to obtain primacy.

Senator McCLURE. You have nine States that you now administer, and you expect seven of those will be in that category relatively permanently?

Mr. REED. I didn't get the number of the nine and seven, sir.

Senator McCLURE. Well, you administer the Federal program in nine States at the present time, is that correct?

Mr. REED. Yes; that's right. The seven States—the only thing that's going on in those at the present time are exploration programs. Any decision on whether or not they will try to obtain primacy will probably be made by their governments when coal becomes a commercial operation in the States.

Senator McCLURE. You don't expect Rhode Island will develop a permanent program of their own?

Mr. REED. No, sir.

Mr. Chairman, if I could, I'd like to make just a brief, 1-minute comment.

Senator McCLURE. Surely

Mr. REED. Kind of set the stage.

When this administration took over the surface mining regulations, it found a somewhat unworkable situation with a very complex set of regulations, and very little regulating being done by the States themselves. The primary objectives of the administration became redoing the regulations and making them workable and amenable to transfer of the regulatory authority to the States, as the Congress intended, and then, finally, to get the AML Program started and get AML money out to the States so that the abandoned mine lands could start being repaired. This program was essentially nonexistent when the administration came in. Those major objectives have been, for all practical purposes, accomplished. As you said, 25 States have primacy; 23 of those States have their own AML Program, and the funding for AML is nearly \$300 million for 1985.

We now need to assure that the act is administered properly and to assist the States where it is appropriate. Our budget requests presently submitted for your consideration are designed for that purpose. There are slight increases in most areas of the budget and this is generally indicative of increased resources and grants for the States.

STATUS OF MICHIGAN PROGRAM

Senator McCLURE. Well, let me ask this question. One of three States that do not have primacy—and you mentioned the fact that Washington probably would, in response to a question—you said that Rhode Island probably would not. Well, let's take a look at Michigan. It's one of the States that you administer that has a significant backlog of priority I and II problem areas, and yet they're not moving toward primacy. Is that correct, as you see it?

Mr. REED. Let me ask Mr. Close to answer that.

Mr. CLOSE. Michigan is making preparations for primacy and it is possible that they will have an approved program sometime in the next year or two.

Senator McCLURE. Next year or two? If they were to achieve primacy, could they expect to receive much AML funding after achieving primacy?

Mr. CLOSE. Well, the largest source of funds for AML projects within the States is the 50-percent share of AML fees reserved for the States. Since there is no coal production in Michigan at the present time, and none since the act was passed, there would be very little funds available for that. Any AML project, as a result, would have to come from using the Secretary's discretionary fund.

PRIORITIES FOR RECLAMATION

Senator McCLURE. Well, aren't priority I and priority II problem areas critical problems?

Mr. CLOSE. They're not necessarily of sufficient magnitude to require use of the discretionary fund. We would have to look first at the emergency projects and then priority I's.

Senator McCLURE. What does priority I mean, something other than priority one? I shouldn't misread what you mean by priority I: That's not first priority?

Mr. CLOSE. Emergency projects, which are an immediate threat to personal safety are the very top priority. Priority I's are immediately after this.

Senator McCLURE. So, priority I is priority two; priority II is priority three; and something else is priority one. Is that right?

Mr. CLOSE. Priority I is ordinarily the top priority project you get. But, yes, sir, given your ranking that would be appropriate.

STATUS OF MISSISSIPPI PROGRAM

Senator McCLURE. I notice that one State, Mississippi, has primacy and receives a State regulatory program grant but has no inspectors or coal mining within its borders. Could you explain that situation to me?

Mr. CLOSE. Mr. Chairman, Mississippi does anticipate that there will be coal production within the State at some future point.

Senator McCLURE. What do they spend their grant on? They have no money, and they have no coal, and they get a grant and they have no primacy.

Mr. CLOSE. Well, there is lignite in the State and there is exploration and consideration of mining within the State.

Senator McCLURE. Well, if they don't have any active mining and they don't know when they're going to get it, why should the grant be continued?

Mr. CLOSE. The grant is continued only at a very low level, just to maintain a minimal program to deal with companies doing exploration and considering permanent activities.

Senator McCLURE. What was their grant in fiscal year 1983?

Mr. CLOSE. \$53,000.

[COMMITTEE NOTE.—OSM later provided information that Mississippi received no grant funds in fiscal year 1983. The program level for fiscal year 1984 is \$53,000.]

Senator McCLURE. \$53,000? Do you expect to grant them funds in fiscal year 1984 and fiscal year 1985?

Mr. CLOSE. Well, it's possible that we might grant them up to \$10,000 or \$20,000, depending on the level of effort. We would examine the specific work they propose to do and be sure it was appropriate.

Senator McCLURE. Would you encourage other States with no coal mining activity to obtain primacy and get in on the grants program?

Mr. CLOSE. Only if mining appeared to be imminent and they had a real reason to do so.

Senator McCLURE. Do you think it's that imminent in Mississippi?

Mr. CLOSE. More so than in Rhode Island or Massachusetts.

Senator McCLURE. That's comparative.

Mr. CLOSE. Yes; I don't know enough about the immediate situation to say that it will happen next year or 2 years from now.

SECTION 733 ACTIONS IN TENNESSEE AND OKLAHOMA

Senator McCLURE. On April 6, 1984, OSM assumed the mine inspection and enforcement responsibilities for the States of Oklahoma and Tennessee. Effective April 30, 7 OSM inspectors were assigned to Oklahoma, and 40 to 50 OSM inspectors were assigned to Tennessee to assist these States in their surface coal mining regulatory programs. What prompted you to take that action?

Mr. REED. It was based on a documented history of the operations in those States from about March 1983, when the Governors were first given official notices of the 733 action, through the remaining months of 1983, culminating in a public hearing in December for Oklahoma

and January for Tennessee which entertained comments from the general public as well as the States themselves. Based on that record, the evidence at hand, and the results that we were getting, the decision was made.

Senator McCLURE. Is this the first time OSM has actually assumed these responsibilities from the States that had previously achieved primacy?

Mr. REED. Yes, sir; again, there's one other State that a 733 action is proceeding in, and that's the State of Kansas. A decision has not been made about their program. But to get to the point of your question, yes, there's a very intricate procedure that's laid out by way of regulation which the Office of Surface Mining would follow. Again, we hope that it's not necessary to implement such actions and proceedings, but there is a procedure. It isn't done on a whim and it isn't done overnight. It's done through a very lengthy, detailed process.

REGAINING PRIMACY

Senator McCLURE. How would the States go about regaining primacy if they desire to do so?

Mr. REED. It depends on what they're faulted for. And in the case of Tennessee and Oklahoma, it's the inspection and enforcement. What they need to do is provide a plan that tells how they will accomplish the inspection and enforcement in their State and show that they have the resources and the wherewithall to accomplish it. And that would allow them to—well, it would allow the Office of Surface Mining to give notice in the Federal Register that Tennessee and/or Oklahoma, whichever one came forward, was going to reassume certain aspects of the inspection and enforcement.

Now, again, primacy has not been removed from Tennessee and Oklahoma. We have only substituted Federal personnel in part of the program, so that they don't have to recover primacy; they only have to recover inspection and enforcement. But it will be done in a business-like manner, with them presenting to us what they can do and when, and when we accept that we put a notice in the Federal Register and they are then put in charge of it.

Now, with a State like Tennessee that has a large mining industry, what might be done there—and, again, this is up to Tennessee, and we will work with them and be flexible in it—they might want to start out with just three counties or, maybe, five counties and take charge of that and then expand their force and take over the entire amount. They might want to designate active mines and take those. They might want to designate just certain mines by name and take responsibility for those. Whatever sort of plan and whatever speed they want to come back in, we will be prepared to work with them.

COMPENSATION OF STATE INSPECTORS

Senator McCLURE. What is the salary of a Federal inspector?

Mr. REED. It varies, but probably the average is about \$20,000 a year, \$20,000 to \$30,000.

Senator McCLURE. That's a fair spread.

Mr. REED. GS-9 through GS-12 can be the range.

Senator McCLURE. Is the average closer to \$30,000 than it is to \$20,000?

Mr. REED. Yes.

Senator McCLURE. One of the complaints Tennessee had is that all they're able to pay their own inspectors is \$14,000 a year.

Mr. REED. Yes; they have got quite a problem, in our opinion, for the salary gap in the type of person they can attract for the job.

Senator McCLURE. And if you work side-by-side with them, and you have Federal inspectors being paid roughly twice what a State inspector is paid, would that lead to some further problems?

Mr. REED. It may. I think in most every State you'll find the Federal pay scales a little out of synch with State pay scales, but yes, it will probably cause some problems. And, naturally, in personnel we would hope it would eventually be picked up by the State of Tennessee. And if they are not able to offer an adequate salary, then, of course, it would not occur, and that would be a problem.

Senator McCLURE. Is that just their problem in Tennessee, and in other individual States, or is there something that we in the Federal Government can do to make it possible for them to have local mine inspectors with greater expertise and, perhaps, less of a salary gap in that particular instance?

Mr. REED. Well, you know, the Federal Government—the Office of Surface Mining—funds the States for half of their regulatory costs, so we, in essence, pick up half the salary for their personnel. We expect them to put in the other half. I think what is needed, basically, in Tennessee, is for the salary to go up. But to give an example: In the State of Oklahoma, an inspector makes \$22,000, so I guess it should be expected for the States to provide a salary for the job that merits the type of personnel that they need.

STATUS OF TENNESSEE PROGRAM

Senator McCLURE. In your statement you say that Governor Alexander of Tennessee has proposed to the State Legislature that the program be returned to OSM totally. Are we seeing the start of a backlash because some States feel they can't afford to run the program to OSM standards?

Mr. REED. I don't know if it's appropriate for me to characterize just what is going on in Tennessee. Tennessee has several problems. They have a statute which, in the opinion of, I think, the Governor and a lot of people in the Government as well as in the legislature, is more rigorous than and not as adaptable as the Federal regulations. I think they were seeking to change their statute in the first place. Furthermore, they have suggested to us the possibility of needing a different type of organization in order to manage the program, which would come by

way of statute. I haven't seen any indication on the part of any other State to throw back the program to the Federal Government. I'm not even sure that will be the ultimate outcome in Tennessee. I think maybe they will reconsider adopting a statute similar to the Federal statute and reentering the regulatory game under a different kind of framework.

Senator McCLURE. It isn't just a dollar game with them, obviously.

Mr. REED. No; it's a lot of problems.

Senator McCLURE. There are a lot of problems involved in Tennessee. However, there are a lot of incentives for and against State primacy. There are a lot of reasons why a State would want to have primacy as well as a lot of reasons why, perhaps, they would just as soon let you have it.

Mr. REED. Well, the line of questioning you ran at first shows that there is an incentive for them to have primacy. If you have primacy you can have an AML Program, and there's possibly 40 million dollars' worth of AML work to be done in Tennessee.

Senator McCLURE. That's the other side of the coin. They can administer that program.

Mr. REED. Yes; if they have primacy.

PARKER ORDER COMPLIANCE

Senator McCLURE. On December 29, 1982, Judge Barrington Parker of the U.S. District Court for the District of Columbia issued a court order directing OSM to take immediate action and remain current on the assessment and collection of penalties resulting from violations of the Surface Mining Control and Reclamation Act of 1977. Most of the citations affected by Judge Parker's court order were issued during the Federal Interim Regulatory Program prior to 1981. What are your plans to abide by this court order? How long will it take you to get caught up, and why did it take court action to get you going?

Mr. REED. We are presently current on violations that are assessed at the present time. I would like to have Mr. Close address the plans for addressing the entire Parker order.

Senator McCLURE. When you say current, that means you are current on current actions? That doesn't mean that you are caught up on old ones?

Mr. REED. No; it does not. And we are working to that end.

Mr. CLOSE. Mr. Chairman, the Parker order covered two basic types of activities. The first was the assessment and collection of civil penalties. At the time of the order, we had already completed the assessment of all of those penalties, so the order, in effect, only requires that we remain current; we have set up special tracking on those cases to assure we do so.

The other part of the order concerns alternative enforcement action on all unabated failure to abate cessation orders. We have set up a system to identify and track all cessation orders. We have a task force in place which is currently working on them. There are five alternative en-

forcement actions which we are taking. We have completed two of those enforcement actions for all cases, and are working actively to do the rest.

The remainder of our alternative enforcement activities will focus on such things as referring cases to the Office of the Solicitor for injunction. In that case we have to do an analysis of the case file, do inspections on the ground, things of that sort. With our current staffing level it will take probably 2 years or more to get all of these cases referred, plus additional time after that to assist the Solicitor's office in litigation.

Senator McCLURE. That addresses everything except my final question. Why did it take court action to get you going?

Mr. CLOSE. In the case of the civil penalties, it did not. We had already assessed those. And in the other case, we had a very short staff at that time. I think it's most unfortunate it did require court action.

APPEAL OF PARKER ORDER

Senator McCLURE. You know, the whole area of mine inspection and enforcement is a matter of public perception, as well as the reality. Violations not cited, citations not assessed, and assessments not collected undermine public confidence in the agency. I think you're aware of that. And yet it was made to appear, and can easily be made to appear, that you stopped short of the criminal assessment provision, and as I read your answer—as I understand your answer—indeed, that's correct.

There was an article in the Washington Post a few months ago that comes to mind. The reporter and the DC police were discussing the increase in traffic light violations; various reasons for this were discussed, but the obvious reason—to me, anyway—was ignored. Traffic light violations, like mine violations, are contagious. If drivers, like mine operators, are—or, perhaps, mine operators, like drivers, are allowed to ignore the law, more drivers and more mine operators will ignore the law. Eventually, the good drivers and the law-abiding mine operators are the ones that get hurt, either through traffic accidents or financially.

You say in your statement that the January 1984 appeal of the Parker court order will not affect the necessity to perform the projected workload. Well, I'm glad to hear that. You have, in effect, said, "Well, the court order was unnecessary. We were getting to it anyhow. We're short of personnel. We will be slow catching up, but we're going to catch up. The court order was unnecessary." That's the essence of the answers I think I'm hearing. If that's the case, why did you appeal?

Mr. CLOSE. The appeal was based solely on an issue of venue and not on the merits of the case.

Senator McCLURE. Why did it take you over 1 year to file the appeal?

Mr. REED. I think I would have to have the Solicitor answer for you.

Mr. BONEKEMPER. My name is Edward Bonekemper. I'm the Assistant Solicitor for Governmental Relations in the Division of Surface Mining. This particular matter does not come within my jurisdiction. I really think we would have to get an answer for the record, because it is very complex and I'd rather not give you the wrong information.

Senator McCLURE. I appreciate, at least, that much. And if you will provide the answer for the record I would appreciate it, because I think the public is entitled to know what is an apparent failure to follow through on the enforcement process, which is matched also by an apparent——

Mr. REED. Mr. Chairman——

Senator McCLURE. I am not sure what the apparent reason for the appeal may be, but I'd like to sort it out.

Mr. REED. If I may address that, I will give you a response in writing concerning the appeal. I think it has to do with a precedent being set by the venue issue.

But, as far as pursuing these cases and so forth, we have been current on violations, assessments, and penalties for some time now and will remain current, and believe, as you have indicated, it's extremely important for a regulatory function to do that. These cases, though they're in the backlog, are in essence thousands of cases that were left over from the past administration in cardboard boxes stuck around in basements, attics, and buildings across the country. And, quite frankly, the administration, when it first came into office, had priorities such as getting the regulations redone and primacy transferred to the States, and was, frankly, slow about getting to processing all of that work that had been commenced in the last administration. The last administration wrote a lot of paper but didn't have the mechanism to follow through with it, and it was up to us to put the follow-through mechanism in. That has been done and that work will be done.

[The information follows:]

PARKER ORDER APPEAL

OSM disagreed with Judge Parker's decision that the Surface Mining Act's venue provision limiting citizen suits involving coal revenues to the Federal courts where the coal revenues were located did not apply in this case. OSM also disputed Judge Parker's characterization of its alternative enforcement duties as mandatory in every case. Finally, OSM objected to the District Court's entry of summary judgment for plaintiffs without plaintiffs moving for such relief.

OSM's appeal was filed within 60 days from the District Court's December 28, 1982, decision as provided for by the Federal rules of appellate procedure.

On January 20, 1984, the court of appeals reviewed Judge Parker's decision that this law suit could be filed in the District of Columbia. On April 2, 1984, the *en banc* court of appeals granted plaintiffs' suggestion for rehearing.

TRIBAL REGULATORY PROGRAMS

Senator McCLURE. Thank you. If I could turn for just a moment to a couple of other matters and then share my time with the distinguished Senator from West Virginia, the Democratic leader of the Senate—turning to Indian lands, if I may: Regarding legislative options to allow Indian tribes to regulate their own lands, OSM testified last year in April that a package would be ready to come to the Congress within a couple of months. This year, in your justification, you state that “legislative options that would allow the tribes to achieve primary regulatory authority have been developed and are now being assessed for submittal to Congress.”

OSM submitted a report to Congress a few years ago, but as I recall it didn't have a specific recommendation as to the definition of Indian lands. Just exactly what is the status of Indian lands with respect to the Surface Mining Control and Reclamation Act? Are the tribes' share of the abandoned mine reclamation fund being held for them until they obtain primacy?

Mr. REED. Mr. Hunt presented testimony on behalf of the Department on that issue. I'll let him answer it.

Mr. HUNT. Mr. Chairman, the act does have a definition for Indian lands at this time. However, we have found that that particular definition is subject to a variety of interpretations. The study that was sent up to Congress about 2 months ago included a complete analysis of all of the various interpretations of the definition of Indian lands and indicated the various options available to Congress to clarify that definition.

At the present time, because of the Department's trust responsibility with respect to the Indian tribes and the Indian lands, we are using a broad interpretation of the existing definition and going ahead to implement the Permanent Regulatory Program under that broad interpretation. Because we have conflicting responsibilities within the Department, we have not provided a firm recommendation to the Congress that is any less than that broad interpretation. We do feel that it would be appropriate for Congress to consider the various interpretations that are now being put forth with respect to the existing definition, and the impacts of possible clarifications that could be brought forward from that definition.

INTERIOR POSITION ON INDIAN LANDS DEFINITION

Senator McCLURE. I understand the conflict in responsibilities that the administration has: One, trustee responsibility to act for the benefit of the Indians; the other is the responsibility to act for the benefit of everyone else. Occasionally those two things have an apparent conflict. Do I understand that your recommendation with respect to the definition of Indian lands falls on the basis that you can't make up your mind which is the more important responsibility—to the tribes and the trust authority or to the rest of the country?

Mr. HUNT. Well, our recommendation is that it is an issue that falls within the congressional prerogative to determine whether to provide further clarification of the definition or not; and we recommend that Congress give that report careful consideration and hear the views of the different parties in making that deliberation.

Senator McCLURE. I heard that the first time around, and I'm trying to get at it because I'm not sure whether you don't have an opinion or whether you're afraid to state it.

Mr. HUNT. OK. We don't have a recommendation for Congress on how to change the definition of Indian lands.

Senator McCLURE. Do you recommend that we do change it?

Mr. HUNT. I recommend that it be one of the things that Congress evaluates in the bill. I cannot provide you any more than that from the standpoint of the Department's position.

Senator McCLURE. Of course, I think Congress understands we have the authority to change any law on the books. But the question is whether we should, and I gather your impression is you invite us to look at it, but you don't have any opinion about whether—

Mr. HUNT. I think Congress should clarify the definition of Indian lands.

Senator McCLURE. But you don't have a recommendation as to how we should do that?

Mr. HUNT. No, sir.

REPORT ON TRIBAL REGULATORY PROGRAM OPTIONS

Senator McCLURE. Thank you. When do you expect to submit your next report to the Congress with respect to the Indian lands question and the Indian primacy question?

Mr. HUNT. Senator, the report that has been submitted is the full report that was requested in Public Law 95-87, and is the only report that is anticipated to be submitted.

Senator McCLURE. This, I assume, is the report to which you make reference? It is undated. It's entitled "Report to the U.S. Congress—Proposed Legislation to Allow Indian Tribes to Elect to Regulate Surface Mining of Coal on Indian Lands".

Mr. HUNT. Yes, sir. That is the report.

Senator McCLURE. When do you expect the Indian tribes to obtain primacy?

Mr. HUNT. The Indian tribes are not authorized at this time under the existing law to obtain primacy. Therefore, a congressional action would be required to give the Indian tribes authority to obtain primacy under the act. One of the recommendations included in that particular report would be measures that could be added to the law to give the Indian tribes that authority.

CENTRALIA RELOCATION EFFORT

Senator McCLURE. Let me turn, just for a couple of questions, to the Centralia mine fire. Congress added \$42 million to the current fiscal year budget for mitigation efforts related to the Centralia mine fire. OSM recently approved a \$39 million grant application from the Commonwealth of Pennsylvania. Can you give us an update on the activities with respect to Centralia?

Mr. HUNT. The State of Pennsylvania is currently proceeding with the implementation of their relocation plan. The first steps in that relocation plan include the establishment of a local office to deal with the people locally in Centralia, and also the completion of appraisals on the property. They will complete the appraisals within a schedule established by the State. Once the appraisals have been issued to the local citizens, they will have an opportunity to decide whether to accept that relocation and move, or whether to stay in Centralia.

Senator McCLURE. Are you sufficiently aware of what the progress is under the State plan to give us any information as to how it's going, or is it too early in that process to be able to tell?

Mr. HUNT. No; the State is moving forward expeditiously and, in fact, has a full cast of appraisers in the field at this point to proceed with the appraisals. And I expect that many of the homeowners will be getting their appraisals in the near future.

Senator McCLURE. But no relocations as of yet?

Mr. HUNT. No relocations have occurred under the Centralia grant to Pennsylvania at this time. Of course, in 1981 the Federal Government relocated 20 some families and they were completed then. But no relocations have occurred yet.

Senator McCLURE. Do you have any information or feeling as to whether or not there will be some who will refuse to move?

Mr. HUNT. Yes; a percentage—I think it's approximately one-third is the estimate at this point—of citizens in the Centralia Borough have indicated that they would decline the opportunity to move.

Senator McCLURE. How far is the \$42 million going to go?

Mr. HUNT. The \$42 million should, under current estimates, cover the full cost of the relocation effort. It is not intended, at this point, to fund any fire control technology or anything like that, but it should cover the full cost of any relocation plan.

Senator McCLURE. And if one-third do not move, what happens with respect to that one-third?

Mr. HUNT. The Pennsylvania Department of Health, in conjunction with the Pennsylvania Department of Environmental Resources, continues to monitor the conditions on a daily basis in all the homes where people are willing to allow the monitors in, both in terms of the ground conditions in the area, the gas, and the temperature of the mine fire and the progress of the mine fire, and also the gas levels within the homes. And the homes that are occupied have continuous monitors to monitor the gas level itself. If the gas level gets to a range where it would be considered potentially unsafe, then an alarm goes off and they would know to open up their windows. There's no imminent danger now to the people that stay which we're aware of, although it is a situation that justifies continued observation and monitoring, which the State does have in place and is proceeding with.

STATUS OF CENTRALIA MINE FIRE

Senator McCLURE. Tell me if I understand correctly. You say there's no intention of effort to put out the fire, correct?

Mr. HUNT. The \$42 million grant does not include any moneys to control or extinguish the fire. The State of Pennsylvania has its own Abandoned Mine Reclamation Program. Under their approved program for abandoned mines and reclamation in the State, they, of course, can consider the Centralia project along with any other project for use of the moneys made available to the State under the abandoned mine reclamation fund.

Senator McCLURE. But you have no plans within OSM?

Mr. HUNT. No, sir.

Senator McCLURE. That fire is still burning and it's still moving, is it not?

Mr. HUNT. It's still burning, although it hasn't been moving recently. It's stagnated for about the last 6 months, the latest information I have.

Senator McCLURE. Is the village of Byrnsville now threatened by the fire?

Mr. HUNT. The fire is moving within the outskirts of Byrnsville. And the relocation plan extends to include the citizens in the village of Byrnsville, so they will also have the opportunity to relocate.

Senator McCLURE. Well, your previous answer that the fire is moving should be modified with the later answer that it is moving at least that much.

Mr. HUNT. We did a study about 1 year ago, that indicated the status of the mine fire. That study indicated the fire had been moving toward Byrnsville and, in fact, while we were completing that study we indicated progress of the fire toward Byrnsville. However, the latest information I have is that the fire has stabilized and is not proceeding at the same pace under the town of Byrnsville, although that's a very real possibility.

Senator McCLURE. Either the fire will go out or it will move, will it not?

Mr. HUNT. I would expect that is very correct.

Senator McCLURE. Are you telling me you expect the fire to go out where it is now?

Mr. HUNT. I don't expect that fire to go out, no, sir.

Senator McCLURE. Then you expect it to move?

Mr. HUNT. I expect that the fire will move, yes.

Senator McCLURE. Thank you. Senator Byrd?

STATUS OF NATIONAL AML INVENTORY

Senator BYRD. There has been considerable controversy regarding the proposed allocations of moneys from the abandoned mine land fund through the States based on the inventory of projects needing reclamation. What, specifically, has the Office of Surface Mining done since last spring to update and refine the national inventory of reclamation projects?

Mr. REED. Since the spring of 1983?

Senator BYRD. Yes, since last spring.

Mr. CLOSE. Senator, we had first established a procedure whereby the States can do interim updates—that is, add material which is needed to the inventory. We have replaced that recently. We had initiated the update process late in 1983. We replaced that with a permanent update procedure, and have been conducting training courses with the States to show them what steps they need to go through to add sites to the inventory. That will help to complete it or make it more complete than it presently is.

Mr. REED. We are also having a comment period on how to go about apportioning the money, as well as updating this inventory. That will be open until November of this year. And people are free—in fact, we invite people to comment on the proper way to apportion that money as well as the validity of the AML inventory.

Senator BYRD. How many projects have been added by States, how many have been reclassified, and how many have been dropped from the inventory during the past year?

Mr. CLOSE. I don't have that information. I would be happy to provide it for the record.

Senator BYRD. All right. Do you have it for the State of West Virginia?

Mr. CLOSE. We will get what is available for that.

Senator BYRD. Does anybody there with you have it?

Mr. CLOSE. No, sir; we probably have very little in at the present time.

Senator BYRD. Pardon me?

Mr. CLOSE. I expect we have very little new information in as of the present time. We have just been going through the training process.

Senator BYRD. If you will provide that by State for the record.

Mr. CLOSE. Yes, sir.

[The information follows:]

STATUS OF AML INVENTORY

There have been no actions completed to add, reclassify, or delete data from the inventory. As noted earlier, States have been receiving training related to the permanent updating process, and OSM expects to receive update proposals shortly. The following status report on training provides information that is useful in this regard. The update materials that were forwarded by some States as part of the interim update process were not acted upon as these States expect to resubmit under the permanent process.

It should also be noted that no inventory problem areas are ever eliminated from the data base; however, individual problems and associated costs within a problem area are eliminated as reclamation projects are completed.

AML inventory updating status report from September 1982–April 1984

<i>States</i>	<i>Date training completed</i>
Alabama	October 1983.
Alaska	April 1984.
Arizona	Do. ¹
Arkansas	Do.
California.....	March 1984. ³
Colorado.....	April 1984.
Georgia.....	October 1983. ¹
Idaho.....	April 1984. ¹
Illinois.....	Do.
Indiana.....	Do.
Iowa.....	Do.
Kansas.....	Do.
Kentucky.....	March 1984.
Maryland.....	October 1983.
Massachusetts	Do. ²

See footnotes at end of table.

AML inventory updating status report from September 1982-April 1984—Continued

States	Date training completed
Missouri.....	April 1984. ⁴
Michigan.....	Do.
Montana.....	Do.
Nevada.....	Do. ¹
New Mexico.....	Do.
North Carolina.....	October 1983. ²
North Dakota.....	April 1984.
Ohio.....	October 1983.
Oklahoma.....	April 1984.
Pennsylvania.....	October 1983.
Rhode Island.....	Do. ²
South Dakota.....	April 1984. ³
Tennessee.....	March 1984.
Texas.....	April 1984.
Utah.....	Do. ⁵
Virginia.....	October 1983.
Washington.....	April 1984. ¹
West Virginia.....	October 1983.
Wyoming.....	April 1984. ⁶
Crow Tribe.....	Do.
Hopi Tribe.....	Do.
Navajo Tribe.....	Do.
Zuni Tribe.....	Do. ¹

¹ Training conducted for Western Technical Service Center staff who will update.

² Training conducted for Eastern Technical Service Center staff who will update.

³ Training conducted at contractors office (Skelly & Loy) who will update.

⁴ Missouri submitted interim update forms which were validated by field office. Interim update process canceled due to permanent process and State has chosen to resubmit.

⁵ Utah submitted interim update forms which have been held due to inventory training. State has chosen to resubmit.

⁶ Wyoming submitted interim update forms which have been held due to inventory training. State has chosen to resubmit.

EFFECT OF INVENTORY ON GRANT AWARDS

Senator BYRD. What is the Office of Surface Mining's present plan regarding the use of the inventory as a tool for allocating funds from the Secretary's discretionary share to the States?

Mr. REED. The present policy for 1984 for figuring out the distribution—the proposed distribution for 1985 and 1986—will be to use the AML inventory in apportioning the money available from the Secretary's discretionary share. But as we have said, that inventory itself is under review, and we expect it will probably be altered considerably by the State inputs over the course of this spring and summer. We are also considering the feasibility of using other methods for apportioning the Secretary's share. So, for right now the policy is to use it for 1984, and use it in planning for 1985 and 1986, but we won't know until the end of this year just how applicable it will be for the future and whether or not we will be doing it some other way.

ALTERNATIVE AML FUNDING METHODS

Senator BYRD. What other methods? You used the term other methods; what other methods have you used?

Mr. REED. You could use coal that's been produced in a State as a guide to assume that where the most coal has been produced for the past 100 years, the most problems will be. Or you could apportion it just on the State's wealth—return it from whence it came. You could also do it on the basis of population, or affected population, by coal mining. There are probably several bases that people could choose, some more appropriate than others, obviously. We use the inventory, which is a classification of priority I and priority II projects that are submitted from the States where coal mining has occurred.

Senator BYRD. So you are presently using the inventory basis?

Mr. REED. Yes, sir.

Senator BYRD. When did the Office of Surface Mining notify the States that the inventory would be used as the basis for allocating the funds?

Mr. CLOSE. In our original environmental impact statement on the State Grant Program for AML, that possibility was mentioned, although it was not stated as a certainty; and that was done, I think, in 1979 and 1980. We have been dealing regularly with the States over the past couple of years on this. On July 31, 1983, we presented to the States a highly specific proposal on the use of the inventory, including allocations which would have resulted at that time. We did tell the States then that it was still open to comment and subject to change.

Senator BYRD. Why would States like West Virginia and Kentucky not inventory all of their abandoned mine lands and consequently be hurt by an allocation based solely on the national inventory?

Mr. REED. To the extent they didn't inventory properly, it will cause a distortion in this year's funding. But if they redo their inventory and do it properly, corrections should be able to be made in the future for the several years of funding left.

Senator BYRD. Suppose they did do it properly? Then what would be the future plans of the office?

Mr. REED. Well, again, we're considering alternative ways of allocating or apportioning the money, as well as improving the inventory itself. We simply haven't made a decision, and won't make a decision until the end of this year, on just how we will apportion money in the future. But we do intend to try to get as good an inventory as possible, in case that is the method that we decide is most proper.

WEST VIRGINIA AML ALLOCATION

Senator BYRD. My State has been one of the Nation's leading producers of coal. The problems associated with coal mining are no more apparent anywhere than they are in my State. And given West Virginia's contribution to satisfying the Nation's needs for energy, one would assume that any reclamation effort would concentrate very heavily on my State. Under your proposal, to allocate funds from the Secretary's discretionary share, you have indicated that any one of several different methods may be used; and I suppose a combination of any of those methods would also be considered. How many cents on

the dollar would you estimate that West Virginia would receive from the coal taxes it has paid into the Secretary's share of the abandoned mine land fund?

Mr. REED. I would estimate that, using the present apportionment formula with the present inventory—which, again, is subject to considerable change—but on that basis, we estimate that West Virginia may pay in, ultimately, \$379 million, approximately, to the fund. From that their State share, plus the Secretary's discretionary share, would amount to \$254 million.

Senator BYRD. \$254 million. In other words, that would be 67 cents on the dollar, is that right?

Mr. REED. No, sir. It would be more like 65 to 70 cents on the dollar.

Senator BYRD. In other words, about 5/7, roughly. Is that a fair statement?

Mr. REED. Yes, sir.

Senator BYRD. West Virginia, then, is receiving substantially less than it pays into the fund. Is that correct?

Mr. REED. Yes, sir. That's on the basis of the way it's being done now; that's the way it would break out.

Senator BYRD. Would you hope to rectify that as you developed a new formula?

Mr. REED. I would expect to see West Virginia gain but it depends on what status their inventory is in and how well it was done in the first place. It's really hard to speculate just how it would change with a better inventory.

VIRGINIA AND KENTUCKY AML ALLOCATIONS

Senator BYRD. What's the situation with respect to Virginia and Kentucky, two of our neighbors, and how much are they receiving back on each dollar?

Mr. REED. These are, of course, estimates of the amount of money that's going to occur in each State—but we estimate that Kentucky may eventually contribute a total of \$489 million. The amount that they would receive back as the Secretarial discretionary and the State share—the total, in other words—would be approximately \$291 million. That's compared to West Virginia's \$379 million and \$253 million back. So Kentucky would be putting in about \$100 million more than West Virginia and getting back only about \$40 million more than West Virginia.

Senator BYRD. Your percentage of return is about 60 percent?

Mr. REED. In Kentucky, yes.

Senator BYRD. As against West Virginia's 67 percent, and Virginia about 60 percent?

Mr. REED. Virginia—they are estimated to contribute ultimately around \$90 million and get back approximately \$54 million, 60 percent.

Senator BYRD. Mr. Chairman, we have a rollcall. But I want to thank you for allowing me to proceed. I have other questions. I will ask just one or two here, and I would hope to submit other questions for responses for the record.

MR. REED. I think if I could say, Senator Byrd, by November or December we will have the inventory revised, and, of course, we will run these figures again. And I think at that point in time it would be very interesting to see just how everyone falls out, and probably better decisions and thoughts could be put to the matter.

Senator BYRD. All right. I state my strong concern that the inventory continues to be flawed, and in its present form it's an unacceptable tool for distributing the Secretary's discretionary fund. I don't believe that the efforts to date have satisfied the concerns expressed by this subcommittee last year in the statement of the managers. I assume that the Department will plan to seek formal approval from this subcommittee before proceeding with the present plans to use the modified inventory as the basis for the distribution of funds. Now, am I safe in saying that?

MR. REED. We will certainly revisit the issue with you.

Senator BYRD. So the answer is yes? Does the Department of the Interior plan to seek formal approval from this subcommittee before proceeding with the present plan to use the modified inventory?

MR. REED. To seek formal approval?

Senator BYRD. Yes.

MR. REED. I don't really know what that would mean, Senator Byrd. We're obligated by the statutory language or the conference language of this present year to justify our apportionment formula in our ultimate disposition of that money, and we will indeed do that and follow that guidance from the conference report.

Senator BYRD. Now, I strongly urge you to determine a more equitable allocation than your present plans before you proceed. And in the interim I would suggest that you not publicize how much various States might get under one proposal or another, because that may cause considerable dissatisfaction.

MR. REED. Yes, sir. I can appreciate that. I would like to also note, Senator Byrd, that if every State got an equal share of money returned to it that it put in, the percentage would be about 80 percent, or 80 cents back on the dollar, because of the other money that comes out of the AML funding—in other words, the Federal part that addresses emergencies and the RAMP Program and so forth.

ADDITIONAL COMMITTEE QUESTIONS

Senator McCLURE. I, too, will have some additional questions to submit for the record. I wish to thank you, Mr. Reed, and I will appreciate the responses to the questions which are submitted in writing for responses to the record in writing.

MR. REED. Yes, sir.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Cooperative Agreements

Question: Two States, Kentucky and West Virginia, that received funding for cooperative agreements in FY 1984 to regulate mining activities on Federal lands will now not require such funding in FY 1985. Why did these States elect not to have cooperative agreements in 1985?

Answer: To date, neither State has submitted an application for 1984 to regulate mining activities on Federal lands. Kentucky has yet to negotiate a programmatic cooperative agreement and does not anticipate doing so in the near future. In the case of West Virginia, on March 9, 1984, a final rule was published in the Federal Register that completed the administrative process to adopt a cooperative agreement for the regulation of mining on Federal lands. The State is currently assessing its funding needs to implement this agreement. It is now anticipated that some funding, though at a presently undetermined level, will be necessary for West Virginia in FY 1985 and possibly for a portion of FY 1984. We anticipate that the appropriation for 1984 and the request for 1985 will be adequate to meet these needs.

OSM Oversight of State Regulatory Programs

Question: OSM makes mine inspections based on their oversight program and citizen complaints. These inspections result in notices and cessation orders. A ten-day notice is issued when the inspection reveals a possible violation; a cessation order is issued when the violation indicates imminent danger of significant environmental harm or danger to the public. A Notice of Violation is issued following a ten-day notice if the State regulatory authority fails to take appropriate action. Virginia seems to have a high number of Notices of Violations and Cessation Orders issued to them. Of 90 ten-day notices issued to Virginia, 21 resulted in OSM issuing a Notice of Violation. They also account for almost one-half of the cessation orders issued by OSM. What problems are there in Virginia that account for such a high level of violations? What actions have you taken to resolve these problems?

Answer: OSM's oversight process disclosed that Virginia was issuing Special Orders and Notices-of-Non-Compliance on sites which had not been permitted to permanent program standards. Virginia informed OSM that it lacked the legal authority to issue NOV's and CO's as required under its permanent program until the operation had been re-permitted. OSM increased its inspector force from 5 to 14 and began conducting regular inspections instead of oversight inspections. A large percentage of the 21 NOV's were written while Virginia lacked the legal authority to issue this type of action. Virginia received the legal authority in March 1983; OSM then ceased conducting regular inspections, reduced its inspector force to 5 (a level used in oversight) and returned to its oversight mode of operation.

During the period in question and when an agreement could not be reached, OSM took the position that certain mines were operating illegally and began to issue CO's. Nine of the 12 CO's were issued for mines that improperly claimed the less than two acre exemption. Currently, this issue is before the U.S. Court of Appeals for the Fourth Circuit.

States' Incentive to Retain Primacy

Question: It would appear that some States could actually save money by having the Federal Government assume part (or all) of their mine regulation program. Is this true? Is it a real danger? What keeps the States in the program rather than turning it over to OSM?

Answer: The Surface Mining Act envisions that the primary regulatory responsibility for surface coal mining and reclamation operations should rest with the States. The Act authorizes annual grants to assist States in

developing, administering and enforcing State regulatory programs. The Federal Government assumes 80 percent of the total cost incurred during the first year of operation of a State program, 60 percent for the second year and 50 percent during each succeeding year. Although a State must assume 50 percent of the program funding in the third and following years, a number of tangible and intangible benefits result. First, the State has primary jurisdiction to regulate surface coal mining. The State thus can tailor its program to the specific conditions and needs of the State. The State's cost for the regulatory program is also in part offset by user fees which the States have historically charged for permitting activities. In addition, one of the major incentives for a State to retain primacy is the allocation of abandoned mine land reclamation funds. Each State with an approved regulatory program is eligible to implement an abandoned mine land program and receive an allocation of 50 percent of the reclamation fees collected annually in the State. The State is also eligible for additional monies from the Secretary's discretionary fund. As a result, OSM is not aware of any substantial movement on the part of States to relinquish primacy for fiscal reasons.

Funding for Section 733 Actions in Tennessee and Oklahoma

Question: To finance most of the costs of the additional OSM expenses in Tennessee and Oklahoma, you have exercised the special transfer authority given the Secretary of the Interior in Section 102 of the general provisions. This authority allows the Secretary to transfer any available no year funds to OSM to assume the regulatory authority when a primary State is not carrying out the regulatory provisions of Public Law 95-87 (SMCRA). This provision also directs that a supplemental appropriation to replenish this transfer be requested as promptly as possible. We expect to markup the FY 1984 supplementals this spring. Why hasn't this supplemental been submitted? How much, in addition to your pending supplemental, will be needed in each line item to cover these additional expenses?

Answer: The supplemental request is now being reviewed by OMB. OSM expects to use \$2.85 million in FY 1984 to carry out regulatory functions in Tennessee and Oklahoma.

Funding for Gasch Court Order Activities

Question: Another court action caused OSM to submit a request for a FY 1984 budget supplemental of \$500,000. This supplemental was submitted to implement more effectively the intent of paragraph 8 in Judge Oliver Gasch's settlement agreement of March 30, 1980, in Council of Southern Mountains v. Andrews, No. 79-1521. The plaintiffs in the case were concerned, and OSM agreed (p. 127), that OSM was not adequately complying with paragraph 8 of the agreement. This paragraph involves the review of enforcement actions to determine if Section 518(f) penalties should be imposed. The Conferees for the FY 1984 Interior appropriations act agreed that OSM should finance this additional workload within available funds. What can you tell us that might cause us to reconsider this direction and approve your supplemental? Have you explored possible reprogramming to finance this increased workload?

Answer: Since the FY 1984 budget supplemental request of \$500,000 for the Gasch order was submitted, another court order was issued which greatly increased OSM's workload. On January 30, 1984, Judge Oliver Gasch issued a supplementary order which amended his original order. OSM created a special task force of 60 people and contractors which virtually worked around the clock for a month to ensure compliance with the new order. These funds were needed for the extra workload required because of the original order; now it is even more essential that we have the funds. There are no funds available that we can reprogram.

Cooperative Agreements With Tribes

Question: You plan grants totaling \$664,191 in FY 1985 to assist those tribes in acquiring skills needed to manage regulatory programs. This is an

increase from the \$550,000 you provided in FY 1984. What is the history of funding granted to the tribes and how have they utilized these funds?

Answer: Attached are tables for the Hopi, Navajo and Crow Tribes listing funding to date for regulatory activities. The funds are used to assist the Tribes in maintaining a coal mining regulatory commission authorized to implement the Tribal code. The Tribes assist OSM in reviewing mining and reclamation plans, including the preparation of completeness determinations and technical and environmental assessments. They assist OSM in inspection and enforcement activities by accompanying OSM inspectors on monthly inspections. They also help to prepare the report to the Bureau of Indian Affairs that outlines reclamation operations at each site and the extent to which impacted lands have been satisfactorily reclaimed. One of the primary purposes of these agreements is to assure that when legislative authority is granted for Tribes to operate their own regulatory programs, the Tribes will have functioning staff capable of carrying out the programs.

OSM Funding to CROW TRIBE (Title V)

FY 1981

Contract \$154,843

FY 1983

Cooperative Agreement \$61,711

FY 1983

Cooperative Agreement \$117,914

FY 1984

Cooperative Agreement \$137,510
TOTAL \$471,978

OSM Funding to HOPI Tribe (Title V)

FY 1982

Cooperative Agreement \$100,111

FY 1983

Cooperative Agreement \$129,942

FY 1984

Cooperative Agreement \$5,228
TOTAL \$235,281

OSM Funding to NAVAJO TRIBE (Title V)

FY 1981

Cooperative Agreement \$255,501

FY 1984

Cooperative Agreement \$248,911
TOTAL \$504,412

Abandoned Mine Reclamation Fund

Question: The abandoned mine reclamation fund finances reclamation activities through grants to States and Federal land reclamation activities administered by OSM. The fund is supported from a fee levied on coal production. Your statement of Abandoned Mine Land Policy was issued about a year ago. Have you made any revisions to this policy since then? Is the estimate of about \$3 billion in collections and \$30 billion in damages from past mining still valid?

Answer: OSM has made no revisions to its Abandoned Mine Land Policy since its issuance in FY 1983.

Subsequent to the issuance of the Abandoned Mine Land Policy, the Department of Energy provided OSM with updated projections of coal production through FY 1992. Using these projections OSM revised its estimate of collections and now expects receipts to total approximately \$3.4 billion over the life of the AML Fund.

The estimate of \$30 billion in damages was made by the Bureau of Mines prior to passage of the Surface Mining Act. We have no updated estimate of total damages at this time. Our inventory, however, indicates that damages posing serious threats to life and property (Priority 1 projects) are well within the \$30 billion estimate, and probably less than the total projected fund revenues.

Question: I think you'll agree that there is an inequity between the revenues deposited annually in some State accounts and the magnitude of the inventory of areas needing rehabilitation within those States. Stated another way, some States collect more money than they may need to rehabilitate high priority reclamation while other States with a large inventory of needs caused by past mining do not collect enough revenues to rehabilitate their high priority reclamation areas. The Secretary's share disbursements help offset some of this inequity. Do you think more should be done? What do you suggest Congress might do to get more of the high priority projects completed in each State?

Answer: Under OSM's proposed formula for apportioning Secretarial-share monies from the AML Fund, States would have available sufficient monies to reclaim all high priority (priority 1 and 2) reclamation problem areas currently contained in the AML Inventory. OSM was certainly aware of the imbalance between current receipts and the estimated cost of reclaiming high priority problems within many States at the time the formula was being developed. The formula represents an attempt to eliminate the imbalance, while simultaneously addressing the intent of Congress, as expressed in SMCRA, regarding the need to protect all citizens from the most critical threats associated with abandoned mine lands. Support for the proposal is critical if these goals are to be achieved. Additionally, once States have received funds for high priority projects, those funds have frequently remained unobligated by the States for lengthy periods of time while they initiate design work. OSM's policy to encourage States to establish realistic schedules, perform design work in advance of construction and eliminate built-in State bottlenecks will ensure that work expeditiously commences on high priority projects.

Reclamation Fund Management

Question: All coal mined in the United States is subject to a reclamation fee. This fee is used to finance the Abandoned Mine Reclamation Fund. OSM maintains a fee compliance program to ensure maximum collection of fees. Past due fees and interest amounts to over \$27 million. About what percent is this of the fees collected to date? How much of the reclamation fees have been "written off" as uncollectable? What efforts are made to collect the fees before writing them off?

Answer: Past due fees and interest amount to approximately 2.5 percent of the total fees and interest collected. Of the total amount owed, approximately \$300,000 in uncollected fees and interest has been written off.

A Coal Production and Reclamation Fee Report (OSM-1) is submitted quarterly by the operator to OSM's Denver Finance Center. If there is no payment, or only partial payment, the Denver Finance Center issues a bill to the operator. If after 30 days, payment has not been received, the debt is turned over to the appropriate Fee Compliance Officer. The Fee Compliance Officer reviews the list of debtors and other information in their files, and refers the cases to the Office of the Solicitor (SOL) for collection. SOL issues demand letters to debtors. Upon non-response from demand letters, SOL activities are pursued by telephone and by filing suit. Finally, if an account is determined uncollectable, SOL prepares all cases for write-off.

Question: In FY 1983, you initiated a procedure to collect past due debts by using a private debt collection firm. Has this procedure been effective? What guidelines do they operate under?

Answer: Through April 30, 1984, the contractor was able to collect in full approximately 35 percent of the total dollar amount placed and secured approximately 25 percent in payment agreements of the total placement for OSM. The contractor also provided OSM with documentation on uncollectable debt. With the documentation on uncollectable debt, OSM and SOL have been able to write-off debt.

As a result of the success of the contractor's collection efforts and OSM's success associated with implementation of the contractor's recommendations, OSM and SOL personnel have been able to concentrate their efforts on developing and setting up an in-house collection program.

The contractor followed the same policies, procedures and guidelines that were established for OSM personnel.

National Abandoned Mine Land Inventory

Question: As an aid to allocate the revenues of the Abandoned Mine Land Reclamation Fund, OSM initiated an inventory of coal mining related health, safety and general welfare problems. Due to the problems identified by the States and the Inspector General of the Department of the Interior, the House and the Senate urged OSM to not rely too heavily on the inventory as the basis for allocation of State reclamation grants. To what extent are you currently using the inventory as the basis for allocation? What have you done to alleviate the States concerns with using this method?

Answer: The Inventory is not being used as the basis for allocating FY 1984 AML grant funds, but is being used to plan for future years. OSM recognizes the States' concerns regarding the proposed use of the Inventory to apportion Secretarial-share monies deposited in the AML Fund. Therefore, we have provided a means by which States may correct any perceived problems with the Inventory. We expect the States will take advantage of the opportunity to update the Inventory, which should lead to the development of a complete and accurate data base in which States will have confidence. Actions taken by OSM in support of the updating process include designing modifications to the Inventory data base to permit inclusion of new information; developing a manual and form for use by States in updating the Inventory; providing training to States on the updating procedures; and developing quality assurance procedures to ensure consistent treatment of State submittals. The final report of the Department's Inspector General stated that he no longer was concerned about the use of the Inventory for apportionment.

Question: You were to have a system for the States to modify the National AML Inventory fully operational last spring. Is this system in place? Have the States been using the system to update their project information? Do you expect to use the AML inventory to allocate FY 1985 funds?

Answer: OSM's interim Inventory updating process was made available for State use in the spring of 1983. The process restricted changes to Problem Area data (e.g., costs, priorities) already included in the Inventory, but States were aware that OSM was developing a permanent updating process which also would permit addition to the Inventory of data on new Problem Areas. Only Missouri, Utah and Wyoming submitted data under the interim updating process. All other States preferred to wait until the permanent updating process was operational to begin receiving training on that process. OSM now expects to begin receiving submittals shortly under the permanent process. Missouri, Utah, Pennsylvania and Wyoming have indicated that they will resubmit, under the permanent process, data previously submitted under the interim process.

It is presently anticipated that data in the Inventory will be used as one tool by which to allocate FY 1985 funds. Additionally, through oversight, OSM examines numerous aspects of States' AML programs, thereby obtaining information which also will help in the formulation of appropriate funding levels. Finally, the amount of money deposited in a State's share of the AML Fund and actually available for use in FY 1985 will affect the grant level which can be approved for that State.

Federal Reclamation Projects

Question: The budget request for the Federal Reclamation Projects program is 13 million, 802 thousand dollars, a decrease of 571 thousand dollars (-4 percent) from FY 1984 appropriations to date. This program finances emergency responses to imminent hazards, priority projects in non-primacy States and Indian Lands, a limited number of technically complex high priority projects, and other support to State and Tribal programs. You propose to eliminate the FY 1984 add on of \$700,000 for high priority projects in Pennsylvania as well as the add on of \$2,000,000 for emergency projects (p. 107). Have you completed the cooperative agreement with Pennsylvania which will allow them to manage the Hyde Park subsidence control project? When will the project be completed?

Answer: The Commonwealth of Pennsylvania has submitted an acceptable application to assume responsibility for completing the Hyde Park subsidence control project. OSM is developing the cooperative agreement, which is expected to be approved in June 1984. As the project is planned for completion in 18 months after approval of the cooperative agreement, it should be completed by January 1986.

Question: Your elimination of the \$2,000,000 add on for emergency projects is based on the "expectation that States will begin to carry out emergency project functions under the expanded State grants program as they enact the necessary legal and procedural authorities." Have there been any recent enactments? What have been your obligations for this program for each of FY's 1981-1983?

Answer: Obligations for emergency projects for each of the fiscal years were:

<u>FISCAL YEAR</u>	<u>OBLIGATIONS</u>
1981	\$10,450,800
1982	6,732,200
1983	15,921,200

In FY 1984, OSM requires additional funds for Federal emergency projects. Consequently, the Secretary used the authority contained in section 102 of P.L. 98-146 to transfer funds for this purpose.

The only States that have received approval for emergency projects are Arkansas and Montana. Illinois has applied for this authority and should be approved within the next month.

Question: Your agency request was \$24,575,000 for Federal Reclamation Projects but OMB allowed you to only request \$13,802,000 in your budget. For the record, where were you planning to spend this additional \$10,773,000? Are there emergency and high priority projects that are unfunded in this budget?

Answer: The \$24.6 million request was a preliminary estimate that was transmitted to the Department. The Department's ultimate request to OMB was funded in full. The differences between the preliminary estimate and the amounts approved by the Department and subsequently by OMB are indicated below.

Emergency Projects	\$7,000,000
High Priority Projects in non-program States	3,000,000
Research and Development	500,000
Staff Operating Costs	<u>273,000</u>
TOTAL	\$10,773,000

A number of variables, including weather, affect requirements for emergency project funding. Wet spring seasons in each of the last two years have significantly increased requirements. However, if a shortfall arises the section 102 authority may be used to make other funds available.

Research and Development Projects

Question: Research and development projects relating to the development of surface coal mining reclamation and water quality control are authorized under the Surface Mining Control and Reclamation Act. You are proposing the addition of almost two million to initiate a national AML research and development program. What projects are you currently funding? What new projects are planned for FY 1985?

Answer: FY 1984 AML Research Projects 1/

<u>PROJECTS</u>	<u>PROJECT COSTS</u>
Evaluation of Past Procedures used in Mine Subsidence Control	\$150,000
Evaluation of Past Mine Fire Control/Extinguishment Methods	150,000
Study of Daylighting as a Method of Reducing Acid Mine Drainage	50,000
Potomac River Impact Study	120,000
Characterization of Leachate from Abandoned Coal Refuse	100,000
Prediction of Landslides for Abandoned Mine Lands	200,000
Experimental Demonstration of Acid Mine Drainage Abatement of a Biological System	165,000
Plant Materials Study	92,000
Assessment and Design for a Quality Assurance Program for Federal Reclamation Programs	150,000

VIP Powell River Project - Effects of Overburden Placement on Mine Soil Properties and Growth of the Loblolly Pine	72,000
Core Support for National Academy of Sciences	55,000

1/ These projects have been funded primarily from prior year unobligated balances of the former AML Technical Support subactivity.

OSM's proposed \$2.0 million research program for 1985, instead of being an in-house effort, will be a cooperative program with the States and Indian Tribes. OSM has designed procedures for this new AML research program with one paramount guideline in mind: that it will primarily address research needs which have national, regional or multi-State application. An invitation has been issued to the States and Tribes to identify these needs in coordination with State Universities and other research entities, and to submit proposals which may solve these large area problems. State technical experts will participate in the selection of proposals for funding. Our only planned limitations for the 1985 research proposals are that they not exceed \$250,000 and that they only address Priority 1, Priority 2, or emergency AML problems.

Question: The Bureau of Mines has a program called Conserving Land Resources. Under this program they conduct research studies on restoration and revegetation of mined areas, reclamation methods and studies, and surface stability. Are you familiar with these and other similar studies? Have you considered funding reclamation research by the Bureau of Mines?

Answer: The Bureau of Mines' (BOM) principal research focus is on active mining operations. OSM tries to follow BOM research as well as that of other agencies in order to avoid duplication of effort and to determine where active mining research results may have application to abandoned mine lands. Our proposed program will cover abandoned mine land problems only. It will address problems such as subsidence, mine fires, old mine openings, etc., which normally are not pertinent to active mining research results.

Although most AML activities of the BOM were transferred to OSM in 1982, we recognize that BOM retains specialized expertise which can assist us. In FY 1983 we funded a Bureau of Mines extraction research project to determine whether that is a feasible method for extinguishing mine fires. This project is now being conducted at the Renton mine fire in Allegheny, Pennsylvania. We also extended our invitation for proposals for FY 1985 research to BOM and USGS and received a proposal from each.

Rural Abandoned Mine Program

Question: The Rural Abandoned Mine Program (RAMP) provides financial and technical assistance to eligible landowners who enter into five-ten year contracts for the reclamation of abandoned coal mine lands and waters. Funds are transferred to the Department of Agriculture, Soil Conservation Service and allocated to State offices to fund active RAMP contracts. On page 68 of your justification you state that funding for new RAMP projects are being discontinued, "in accordance with administration policy and Congressional directives" (emphasis added). My understanding of Congressional direction is stated in the Conference Report to the FY 1984 appropriation. We included RAMP funds in FY 1984 "to restore this program to the way it had been administered prior to FY 1983 as authorized in Section 406 of Public Law 95-87." What Congressional directive are you referring to?

Answer: It is true that the Congress appropriated funds in 1984 for new RAMP projects. However, in enacting 1982 supplemental appropriations for RAMP projects, Congress specified its desire to reduce the number of AML delivery mechanisms. In 1983, Congress continued this practice by providing funds only to complete existing project commitments. In 1984, the Senate Subcommittee maintained that position; the funds for new projects were voted by the House and then supported by the Conference Committee.

Question: A few years ago we went along with the Administration and eliminated separate funding for RAMP projects. The result was that many of the States had to work up cooperative agreements with the Soil Conservation Service to obtain the technical expertise they had previously obtained. A special clearance from OMB was required for the Soil Conservation Service to receive Federal funds from non-Federal sources; landowners were reluctant to enter into agreement because of possible IRS difficulties; and much of the funds earmarked for "RAMP-type" projects were delayed in being obligated. Will FY 1985 be different? Will the States want to finance some RAMP projects and need to obtain SCS assistance?

Answer: The situation in FY 1985 will be similar to that in FY 1984, except that SCS will not need to obtain clearance from OMB since the previously granted clearance remains in effect. We again expect some States to enter into cooperative agreements with SCS, which may result in delays in obligation of monies, since establishment of agreements meeting all State and Federal requirements is a timeconsuming process. Also, landowners may continue to be reluctant to enter into agreements without some assurance that they will not later be subject to Federal taxation based on land improvements. Such assurance cannot be given by States when they are responsible for administration of RAMP, but only by the U.S. Department of Agriculture in those instances where it directly administers the program. Despite these potential problems, OSM still believes that RAMP-type projects should be funded through State Reclamation Program Grants.

Question: Your request for RAMP in FY 1985 is \$3,700,000 to complete existing contract commitments. This request is a decrease of \$6,882,000 from the FY 1984 appropriation. I understand that the Soil Conservation Service will need more than this to service the active contracts. Have they provided that information to you? How much more will be needed?

Answer: In 1984, approximately \$5.9 million (including carryover funds) is available to administer existing RAMP contracts; \$8.2 million is available for new contracts or adjustments to existing contracts. In 1985, approximately \$2.9 million in new budget authority is requested for program administration; \$800,000 is requested for adjustments to existing contracts. The Soil Conservation Service (SCS) anticipates that additional administrative funds may be needed in 1985. However, SCS has indicated that the situation will be reviewed after the end of the current fiscal year when both workload requirements and the availability, if any, of carryover funds will be known.

Question: Section 403 of the Surface Mining Control and Reclamation Act provides the priorities for the use of the Abandoned Mine Reclamation Fund. Would you agree with the 1983 RAMP Annual Report that RAMP projects are mostly priority #1 (protection from extreme danger) and priority #2 (protection from adverse effects)? Will priority #3 projects (restoration of land and water resources) be approved at their historical level through other programs if RAMP is phased out as a separate program?

Answer: The projects included in the 1983 RAMP Annual Report have been checked against the National Inventory priority classifications and reviewed by State reclamation committees. The projects are mostly priority #1 (protection from extreme danger) and priority #2 (protection from adverse effects). In accordance with previous OSM practice, priority #3 sites (restoration of land and water resources) generally will only be approved as part of priority 1 and priority 2 projects.

1984 Pay Costs

Question: For FY 1984 OSM has submitted a pay supplemental for \$470,000. In the Regulation and Technology appropriation, \$72,000 (15 percent) of a \$542,000 pay increase will be absorbed. In the Abandoned Mine Reclamation Fund, OSM plans to absorb \$398,000, which is all of the pay cost in that appropriation. Why do you absorb 100 percent in the AML Fund where you have 315 FTE's but only 15 percent in the Regulation and Technology account where you have 506 FTE's? Why is your General Administration activity called upon

to provide all of the \$72,000 to be absorbed in FY 1984 in the Regulation and Technology appropriation?

Answer: The Abandoned Mine Reclamation Fund is a no year account from which ample funds to meet pay increase requirements are available from recoveries of prior year obligations. The funding situation in the Regulation and Technology account is far more stringent. In 1983, only \$71,000 was lapsed from that account, and we have already had to request 1984 supplemental appropriations to meet program requirements. General Administration is the only activity in the Regulation and Technology account where absorption could be accomplished without immediate detrimental program impacts. As a result of the absorption, we have deferred contracts involving long range administrative improvement studies.

Reprogramming

Question: You have submitted a proposal to reprogram \$1,435,000 within the Abandoned Mine Reclamation Fund from the Small Operator Assistance Program (SQAP) to Reclamation Fund Management (+\$200,000) and General Administration (+\$1,235,000). The proposed increase for General Administration is to be used for increased space requirements (+\$920,000) and ADP support (+315,000). Last year you asked to have included in the record schedules of costs and savings associated with the Office of Surface Mining reorganization. It appears the cost of your reorganization may have been underestimated by a significant amount. Please submit for the record revised schedules of the actual costs and savings of your reorganization. Compare these actual costs and savings with last years estimates and explain differences.

Answer: The actual costs of implementing the OSM reorganization have been significantly less than our original estimates, primarily because of a lower than anticipated number of employee relocations. In a number of instances changes in staffing requirements and normal employee turnover have facilitated the return of employees to their original duty station and thus eliminated anticipated moving expenses. Some employees who were transferred to new office locations have also elected to maintain residences at their former duty stations. Some employees have also transferred to other agencies or private employment at their old duty stations. The following table compares the originally estimated costs to actual costs through FY 1983, and projected costs for FYs 1984 and 1985. The 1984 and 1985 amounts are estimates of costs for employee relocations which may still occur. Employees have a total of three years to relocate their residence and be reimbursed for associated expenses. The reduction from the original cost estimate is \$700,000 greater than the amounts reported to the Subcommittee last year.

Office of Surface Mining
Reorganization Cost

	Projected Cost of Reorganization	Actual Cost FY 81	Actual Cost FY 82	Actual Cost FY 83	Projected Cost FY 84	Projected Cost FY 85	Total Cost	Savings from Original Projected Reorganization Cost
Office Move	\$ 127,644	\$ 0	\$ 89,713	\$ 0	\$ 0	\$ 0	\$ 89,713	\$ 37,931
Store Furniture	66,114	0	6,330	0	0	0	6,330	59,784
Store Vehicles	4,460	0	2,056	0	0	0	0	4,460
Relocate Vehicles	7,500	0	0	0	0	0	2,056	5,444
Storage Charge	12,250	0	0	0	0	0	0	12,250
Telephone Installation	12,000	0	12,000	0	0	0	12,000	0
Radio Equipment	33,350	0	108	0	0	0	108	33,242
Relocation	3,682,000	0	1,397,949	199,854	150,000	250,000	1,997,803	1,684,197
Lease Termination	71,229	0	71,229	0	0	0	71,229	0
Severance Pay	1,031,520	33,551	790,801	120,887	0	0	94,239	86,281
Total	\$5,047,867	\$ 33,551	\$ 2,370,186	\$ 320,741	\$ 150,000	\$ 250,000	\$3,124,478	\$1,923,389

The following table compares FY 1983 costs to actual costs prior to the reorganization. The reduction in costs totals \$5,252,598, which is \$865,000 less than the amount reported last year. Most of the reduction in savings is in personnel costs, and in part is accounted for by the 1982 pay cost adjustment. While somewhat less than our original estimate, the annual savings from the reorganization are still substantial and exceed the one time costs of implementing the reorganization by over \$2.1 million.

Reorganization Savings FY 83

<u>Description Cost</u>	<u>Actual Cost At Time Of Reorganization</u>	<u>Actual Cost FY 83</u>	<u>Adjustments</u>	<u>Adjusted Cost FY 83</u>	<u>Saving FY 82</u>
Telephone Field Locations	\$ 468,936	\$ 215,744	\$ 0	\$ 215,744	\$ 253,192
Office Space Field Locations (A)	1,231,045	1,295,255	(D) (33,033) (C) (90,670)	1,171,546	59,499
Personnel Cost At OSM (B)	<u>30,409,924</u>	<u>26,956,869</u>	(D) (622,961) (C) (863,891)	<u>25,470,017</u>	<u>4,939,907</u>
	<u>\$32,109,905</u>	<u>\$28,467,868</u>	<u>\$1,610,555</u>	<u>\$26,857,307</u>	<u>\$5,252,598</u>

(A) Includes actual costs for offices located in Denver and for two offices in Virginia, as well as other Field Offices, before and after the reorganization. The OSM reorganization proposal to locate the Western Technical Center in Casper, Wyoming, and to have only one office in Virginia was not carried out.

(B) No adjustment has been made to reduce FY 83 personnel costs by the cost of living increases for FY 82 and FY 83.

(C) During FY 82 OSM assumed responsibility for reclamation programs of the Bureau of Mines as a part of the new responsibilities OSM, incurred personnel and space cost that cannot be attributed to the reorganization. Accordingly, office rent (\$90,676) and personnel costs (\$863,891) have been adjusted to remove these unrelated costs.

(D) During FY 82 OSM assumed responsibility for its accounting function. This function was performed by the Bureau of Mines under an interagency agreement. As a part of its new responsibilities, OSM incurred personnel and space costs that cannot be attributed to the reorganization. Accordingly, office rent (\$33,033) and personnel cost (\$622,961) have been adjusted to remove these unrelated costs.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Land Surveyors

Question: On September 19, 1983, the Senate adopted an amendment that I offered to H.R. 3363, the FY 1984 Interior Appropriations Bill, concerning the ability of qualified registered professional land surveyors to carry out certain functions under the Surface Mining Control and Reclamation Act. My amendment affects only those States that authorize land surveyors to perform specific functions such as preparing mine maps and plans.

The intent of the Byrd Amendment is to prevent land surveyors in West Virginia -- and in other States that authorize surveyors to perform certain tasks -- from losing their livelihood as a result of the implementation of the Surface Mining Act. My amendment was retained in conference and it is Section 115 of Public Law No. 98-146.

The Office of Surface Mining (OSM) has raised a question with respect to the interpretation of the intent of Section 115, by seeking to restrict surveyors' ability to design and certify ponds and impoundments under Section 515(b)(10)(B)(ii) of the Surface Mining Act. West Virginia surveyors currently perform such functions, as authorized under State law. Why does OSM seek to bar surveyors from continuing to perform such functions?

Answer: The Senator's amendment only addressed section 507(b)(14) of the Surface Mining Act. This section pertains to the application requirements for a surface mining permit. It was OSM's interpretation that this amendment affected only the application requirements and not section 515, which pertains to the environmental protection performance standards.

Section 515(b)(10)(B)(ii) states, with reference to siltation structures, that "...such structures to be certified by a qualified registered engineer to be constructed as designed and as approved in the reclamation plan." In order to accommodate Senator Byrd's revision to 507(b)(14), OSM has concluded that non-engineers (land surveyors, etc.) can prepare the design of sedimentation ponds, but that section 515 specifically limits to registered professional engineers the certification of these kinds of structures to be constructed as designed and approved.

Question: West Virginia contains many examples of state-of-the-art reclamation techniques. My State's reclamation and enforcement program is recognized as one of the best in the United States. In light of the State's rigorous certification program for registered professional land surveyors, why would OSM seek to deny West Virginia and land surveyors the ability to continue their current functions?

Answer: Since the passage of the Senator's amendment, OSM has developed draft regulations to revise the requirements of certifications for ponds, impoundments, etc., in accordance with the conclusions noted in the answer to the previous question. These regulations are currently under review by the Office of the Solicitor.

Question: Will OSM work with this Committee in seeking to resolve the problems presented under the Surface Mining Act to land surveyors that operate under State law as lead professionals for a variety of mining and reclamation tasks?

Answer: OSM will work to resolve this issue with any interested party or group. OSM would be delighted to work with this Committee.

Mine Subsidence Insurance

Question: The West Virginia legislature has authorized an insurance program to protect property owners from subsidence caused by past mining practices. While this program would collect premiums to sustain its

operations, initial funding of \$1 million is needed to underwrite claims. Is there any legal impediment that would stop OSM from making a \$1 million loan to the West Virginia subsidence insurance program to cover any early claims?

Answer: OSM investigated the possibility of authorizing the use of Abandoned Mine Land (AML) funds, either through grant or loan, to allow States to establish individual subsidence insurance programs. After consultation with the Solicitor's office, we determined that this was outside OSM's current statutory authority. OSM has since developed several options to provide a program for subsidence insurance.

Question: Is committee report language adequate to ensure that such a loan is made available?

Answer: Committee report language, though indicative of Congressional intent, does not alter or amend existing statutory authority. Since funding subsidence insurance programs, either through grant or loan, is outside OSM's statutory authority in Title IV of SMCRA, Committee report language directing such expenditures would have no force or effect; reference Tennessee Valley v. Hill, 437 U.S. 153 (1978).

Rural Abandoned Mine Program

Question: How many RAMP projects in West Virginia have been designed but have not received full construction funding? (Please provide this and the following information by priority category.)

Answer: The only projects fully designed are those for which contract funds were received for FY 1984. There are nine unfunded high priority applications (eight priority I and one priority 2) with partially completed designs.

Question: What would be the total cost to construct these projects?

Answer: The Soil Conservation Service has supplied the following information.

<u>PRIORITY</u>	<u>NUMBER</u>	<u>ESTIMATED COST TO DESIGN</u>	<u>ESTIMATED COST TO CONSTRUCT</u>	<u>TOTAL COST</u>
#1	8	\$300,000	\$3,100,000	3,400,000
#2	1	28,000	288,000	316,000
<u>TOTAL</u>	<u>9</u>	<u>\$328,000</u>	<u>\$3,388,000</u>	<u>\$3,716,000</u>

Question: How many other RAMP projects have been identified in West Virginia, what is the total cost to design these projects, and what would be the roughly estimated cost to construct these projects?

Answer: The Soil Conservation Service has supplied the following information.

<u>PRIORITY</u>	<u>NUMBER</u>	<u>ESTIMATED COST TO DESIGN</u>	<u>ESTIMATED COST TO CONSTRUCT</u>	<u>TOTAL COST</u>
#1	58	\$1,958,000	\$14,486,000	16,444,000
#2	79	2,666,000	19,730,000	22,396,000
<u>TOTAL</u>	<u>137</u>	<u>\$4,624,000</u>	<u>\$34,216,000</u>	<u>\$38,840,000</u>

QUESTIONS SUBMITTED BY SENATOR WALTER D. HUDDLESTON

Allocation of AML Funds

Question: As I am sure you are aware, on February 27th, representatives of the Governors of Kentucky and Montana testified before the House Interior Committee regarding OSM proposals to allocate discretionary funds from the Abandoned Mine Reclamation Fund.

In their testimony, the Kentucky and Montana representatives expressed strong support for alternative allocation plans which emphasize areas of historic coal production and areas from which the revenue is derived as key elements to be used when allocating monies from the AML fund.

In that OSM has in past months agreed to look at alternative plans and in that I believe the total reliance of OSM on its present proposal on the national inventory is unacceptable, I would be most anxious to hear your views on the plans submitted at the House hearing.

Answer: On July 29, 1983, OSM issued a draft policy for distributing the Secretary's share of the Abandoned Mine Land Fund through 1993. The basis of this draft policy, derived from the legislative history of the Surface Mining Control and Reclamation Act (SMCRA), is that Secretarial share funds should be used in those geographic areas with the greatest need. Distribution of these funds would be based upon data in the AML Inventory. Although the data in the Inventory have been criticized in the past, it is still the best available indicator of AML problems, and all States have the ability to add, correct, amend and update any material in the Inventory.

Several alternative options have been received by OSM for evaluation and review. Since the comment period will remain open until at least December 1984, it would be improper to provide specific comment on any of the proposals at this time.

In a generic sense, however, all alternative proposals received thus far attempt to direct a greater percentage of AML funds back to the States from which they were derived, but they are less consistent with the concept that the limited AML funds should be directed to areas with the greatest need.

Mine Subsidence Insurance

Question: During the recently concluded 1984 Kentucky General Assembly, legislation was enacted with regard to insurance coverage for damage relating to under-ground mine subsidence. The adopted legislation would create an underground mine subsidence fund funded by premiums from policies in affected counties to provide for lost coverage.

The Kentucky Department of Natural Resources and Environmental Protection has indicated that they would like to use a portion of their State share of Abandoned Mine Reclamation monies to provide seed money for the implementation of this program. Given that Kentucky has agreed to take this money from their State share, do you envision any opposition from the Office of Surface Mining to the use of a State share for such purposes? Understand that this is a one-time appropriation.

Answer: OSM investigated the possibility of authorizing the use of AML funds, either through grant or loan, to allow States to establish individual subsidence insurance programs. After consultation with the Solicitor's Office, we determined that this was outside OSM's present statutory authority. OSM has since developed several options to provide a program for subsidence insurance.

SUBCOMMITTEE RECESS

Senator McCLURE. The subcommittee will stand in recess until 10 a.m. Thursday, May 10, when we will review the fiscal year 1985 budget request for the U.S. Geological Survey.

[Whereupon, at 3:10 p.m., Tuesday, May 8, the subcommittee was recessed, to reconvene at 10 a.m., Thursday, May 10.]

DEPARTMENT OF THE INTERIOR AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1985

THURSDAY, MAY 10, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:15 a.m., in room SD-138, Dirksen Senate Office Building, Hon. James A. McClure (chairman) presiding.

Present: Senators McClure and Byrd.

DEPARTMENT OF THE INTERIOR

U.S. GEOLOGICAL SURVEY

STATEMENT OF DALLAS L. PECK, DIRECTOR

ACCOMPANIED BY:

DOYLE G. FREDERICK, ASSOCIATE DIRECTOR, U.S. GEOLOGICAL SURVEY

JAMES F. DEVINE, ASSISTANT DIRECTOR FOR ENGINEERING GEOLOGY

EDMUND J. GRANT, ASSISTANT DIRECTOR FOR ADMINISTRATION

BRUCE B. HANSHAW, ASSISTANT DIRECTOR FOR RESEARCH

PETER F. BERMEL, ASSISTANT DIRECTOR FOR PROGRAMS

PHILIP COHEN, CHIEF HYDROLOGIST, WATER RESOURCES DIVISION

ROBERT M. HAMILTON, CHIEF GEOLOGIST, GEOLOGIC DIVISION

RUPERT B. SOUTHARD, CHIEF, NATIONAL MAPPING DIVISION

WILLIAM C. KLOSTERMEYER, DIRECTOR OF BUDGET, DEPARTMENT OF THE INTERIOR

PREPARED STATEMENT

Senator McCLURE. Good morning. This is the time scheduled to review the fiscal year 1985 budget request for the U.S. Geological Survey.

The Survey's request for fiscal year 1985 totals \$391,812,000, a decrease of \$14,118,000 from the fiscal year 1984 appropriated level.

Representing the Department this morning will be Dallas Peck, Director of the U.S. Geological Survey. You are once again welcomed before this committee.

As is our custom, I will ask you to introduce your associates before we proceed with the questioning. Your full written statement will be made part of the record at this point.

[The statement follows:]

STATEMENT OF DR. DALLAS L. PECK

I want to thank you for today's opportunity to discuss the U.S. Geological Survey's (USGS) Fiscal Year 1985 budget request. The programs of the Geological Survey are designed to provide basic scientific data, analyses, and resource assessment concerning water, land, energy, and mineral resources. The FY 1985 appropriation request for the Geological Survey totals \$391,812,000, a net decrease of \$14,118,000 from FY 1984 available appropriations of \$405,930,000.

The USGS proposal includes an increase of \$3,050,000 in digital cartography to provide for continued production of an intermediate-scale data base for multi-Federal agency uses including the 1990 census and redirections for geologic framework cooperative research and cooperative coal hydrology, both of which are programs matched by State and local funding. The budget also proposes to continue high priority work in the areas of toxic substances for ground and surface water contamination, acid rain, and for strategic and critical mineral investigations both onshore and in the newly designated offshore Exclusive Economic Zone (EEZ). The request proposes a well-balanced earth science program.

The recommended decreases for FY 1985 occur primarily in the areas of geologic hazards surveys, energy related geologic surveys, Federal, cooperative and energy related hydrologic investigations, land-use and land-cover mapping, remote sensing data collection and applications programs, and in support systems for data dissemination such as Cartographic and Geographic Information and National Water Data Exchange Programs. Reductions are recommended in programs where 1) there is a potential for recovering costs through enhanced user fees, 2) it is feasible and practical to delay or stretch out research in order to fund higher priority programs and to meet the administration's fiscal goals, 3) there is a planned decrease in workload, or 4) the collection of data and information will be accomplished cooperatively with States.

The Geological Survey has carried out the provisions of Section 104(e) of Public Law 94-258 since June 1977 through the operation and maintenance of the South and East Barrow gas fields which provide natural gas to the village of Barrow as well as to other native communities and Federal installations at or near Point Barrow, Alaska. The FY 1984 program continues Federal funding for the gas fields in part through the reprogramming of unobligated balances from the Exploration of National Petroleum Reserve in Alaska (NPROA) account.

The budget requests no funds for Barrow in FY 1985 as it reflects the plan to transfer the gasfields and various support facilities and equipment located in the Barrow area to the local government prior to the beginning of FY 1985. It is proposed to finance this plan by providing a \$13,000,000 FY 1984 supplemental and transfer of a \$17,000,000 unobligated balance from the NPROA program, for a total of \$30,000,000, to the North Slope Borough of Alaska. This will yield substantial savings in future Geological Survey budgets as current operating costs are over \$6,000,000 annually and could increase in future years to meet growth.

This has been another year of achievement for the Survey and I would like to report on some specific program accomplishments as well as outline the FY 1985 requests for the major budget activities.

Geologic Research

The request of \$156,205,000 will continue research and investigations of the geologic processes that have formed and continue to modify the land, its coastal areas, and its deep ocean margins. Based upon this research and information, the Geological Survey is able to provide accurate, up-to-date assessments of the Nation's mineral, energy, and other resources and to identify potential geologic hazards. Net funding reductions totaling \$6,027,000 are proposed for Geologic Hazards, Energy, Geologic, and Land Resource Surveys subactivities.

Cooperative Geologic Mapping

The FY 1985 budget provides for a new initiative within the geologic framework program of the Land Resource Surveys subactivity to allow the Geological Survey to address the demand for new geologic and geophysical maps through the Federal/State cooperative mechanism. \$1,000,000 is redirected for this effort which will respond to our continuing concern regarding the status of geologic mapping of the Nation to address such diverse requirements as energy and mineral resource assessment, and geologic hazard mitigation as well as a number of other uses. The response from the States has, to date, been very favorable and supportive. The initiative is part of a USGS response to a recent survey conducted by the National Academy of Sciences indicating the need for increased geologic mapping.

The net reduction of \$443,000 in the geologic framework program is possible due to the reduced industry interest in the planning and construction of nuclear facilities. Therefore, studies which provide regional information for the siting of nuclear reactors has been reduced by \$1,443,000.

Hazards

During FY 1984 the Geological Survey continued to pursue active programs in the monitoring and mitigation of geologic hazards. Our goal is to reduce the hazard associated with earthquakes, volcanic eruptions, and ground failures.

Our earthquake hazards reduction program is part of a national effort led by the Federal Emergency Management Agency and includes the National Science Foundation and the National Bureau of Standards. The USGS responsibilities in the national program are in the areas of earthquake prediction, hazard assessment, and data and information. In earthquake prediction we are concentrating our monitoring capability in those areas of the San Andreas fault with the highest earthquake potential. Significant steps have been taken, using satellite data transmission and real-time data processing techniques, that improve our ability to obtain and interpret data we believe important to earthquake prediction. In earthquake hazards assessment a synthesis document (professional paper) on earthquake hazards in the Los Angeles area has been completed and is in the publication process. A cooperative study with the State of Utah is underway and will lead to a similar product. Strong efforts continue to bring our research results to the attention of the user community in State and local governments. During the past year, six workshops with local officials have been conducted for these purposes.

In the volcano program, eruptions of Kilauea and Mauna Loa volcanoes in Hawaii, and continued growth of a large (900' high) lava dome in the crater of Mount St. Helens, have required particular attention to monitoring efforts during the past year. All of these eruptions and eruptive phases have been predicted through the analysis of seismic and ground deformation data. In Hawaii and at Mount St. Helens we continue to work closely, where appropriate, with National Park Service, Forest Service, and local civil defense officials to protect lives and property from the impact of volcanic eruptions.

Currently our volcano hazard assessment work is being conducted in the Pacific Northwest and near Mount Lassen and Long Valley, California. In addition to the assessment of direct volcano hazards such as lava flows and ash deposits, the USGS played a significant role in assisting the Corps of Engineers in dealing with the indirect hazards caused by the damming of Spirit Lake by the 1980 eruption of Mount St. Helens. We provided comments to the Corps on the geologic considerations of the several options they were considering for the solution of the problem to stabilize the water level of Spirit Lake. We continue to monitor carefully the Long Valley region of eastern California and to inform the public and local officials of the nature of the volcanic hazard in the region.

In November 1983, we conducted an extensive review of our Ground Failure program and as a result of that review we shall, in the future, focus this effort on the study and mitigation of landslide hazards. In May-June 1983, the USGS responded to an emergency request from the State of Utah during a

spring landslide disaster. Rapid melting of a record mountain snowpack and spring rains caused hundreds of fast-moving debris flows and reactivated thousands of ancient block landslides. The USGS helped the State identify potentially hazardous landslides, and suggested mitigation techniques to lessen their impact. The USGS is concerned that exceptionally intense winter rains, or rapid melting of mountain snowpacks, this spring could trigger other landslide emergencies in the mountainous Western United States this spring.

Exclusive Economic Zone

In FY 1985, the Offshore Geologic Surveys subactivity will continue the high priority work at the FY 1984 level. This level provides continued studies on marine depositional and sedimentary dynamics, regional geologic framework, and the formation of marine energy and mineral deposits for the surveying and mapping of the Exclusive Economic Zone (EEZ) baseline corridors.

The Geological Survey has designed a program of investigations that respond to the President's Proclamation of the Exclusive Economic Zone and takes full advantage of the 1984 appropriation level which is maintained in our FY 1985 budget. These investigations are centered in 200-mile long corridors chosen to represent the geology and resource potential off each of our coasts. In FY 1984, the Survey began extensive investigations along the West Coast in the area of the Juan de Fuca and Corda Ridges, while also beginning to investigate potential sea floor resources in the EEZ south of Hawaii. Also in FY 1984 we are using a reconnaissance sidescan sonar system to produce a Landsat-like image mosaic covering most of the EEZ off the West Coast. This last year was also significant for the Offshore Geologic Surveys Program because the Survey was able to conduct the first United States marine geologic investigations off Antarctica and participated in resource studies of several South Pacific island nations as part of a three-nation treaty among the United States, Australia, and New Zealand.

Sedimentary Basins

The FY 1985 budget proposes changes within the Energy Geologic Surveys subactivity to recognize our ongoing efforts to study the evolution of sedimentary basins and to assure a highly focused core research effort in sedimentary-rock geology. Rather than a new initiative, the new Evolution of Sedimentary Basins program element will bring existing capabilities and expertise together for a more integrated multidisciplinary approach to basin studies. The studies will develop more comprehensive understanding of energy and mineral deposits and the geologic processes that form those deposits. The budget proposes \$4,656,000 for sedimentary basins, a reduction of \$500,000 that will delay and/or reduce activity in the lowest priority basin studies, particularly in the area of remote detection geophysics.

NURE Data Transfer

During this last year, the Secretaries of the Interior and Energy signed a memorandum of understanding to transfer the data collected and analysis performed under the National Uranium Resource Evaluation (NURE) from the Department of Energy to the Geological Survey. This action was particularly important because it insured that the geologic data collected at a cost of about \$300 million in the NURE program would be made available for further beneficial use. The Survey will be responsible for providing continuing uranium resource assessment work using the NURE data.

Strategic and Critical Minerals

During the current Fiscal Year, the Geological Survey implemented the Strategic and Critical Mineral Initiative provided for in the FY 1984 budget and supported by the Congress. To date, investigations have begun in two geologic regions of the United States where major new mineral potential is expected to be found. These regions are the midcontinent region, which includes parts of 12 states from North Dakota south to Arkansas and from Kansas east to Illinois; and the Mesozoic basins of the Eastern United States, stretching from Massachusetts to Alabama. Both are multidisciplinary studies bringing to bear on the problem the tools of geology, geochemistry, and

geophysics to discover unexposed mineral and energy deposits in a thick section of sedimentary rocks and in the underlying basement rocks. The assessment of these two diverse geologic settings for the possible occurrence of unconventional mineral resources will continue in FY 1985.

Wilderness Program

During FY 1984, the Geological Survey concluded the initial chapter of mineral resource assessment work to be performed on public lands administered by the Forest Service. The publication of Professional Paper 1300, Wilderness Mineral Potential, summarized the 20-year program that was conducted in response to the Wilderness Act of 1964 and subsequent wilderness legislation. During FY 1985, the Survey will continue to focus on Bureau of Land Management requirements as well as limited Forest Service priority requirements resulting from the recent California versus Block decision.

Water Resources Investigations

A budget of \$116,524,000 is being requested to continue the national program of water resources investigations in FY 1985. This program supports the collection of the largest data base of information in the Nation on the quantity and quality of surface- and ground-water and provides water data needed to develop and manage these water resources. In addition to maintaining the data base, funds will be used for high priority work such as the ongoing Acid Rain Program, which studies the effects of acid rain on the lakes, rivers, and ground-water. The Survey's Toxic Substance Hydrology Program for developing information and techniques for mitigating ground- and surface-water contamination, and technical support to Federal and State officials faced with making decisions about the control of disposal of toxic wastes will continue at a level of \$8,945,000. Redirection of \$500,000 within this program in FY 1985 will initiate a new effort of research and river basin investigations on the occurrence, movement, and fate of toxic substances in surface waters and sediment. As in our ground-water research, the goal is to provide a scientifically valid basis for defining the extent and severity of problems and to assess the need for and design of remedial actions. Additional high priority coal hydrology studies will be conducted as part of the Federal-State Cooperative Program, in support of the State permitting process at a level of \$4,413,000 including \$1 million transferred from the Federal Coal Hydrology Program.

Net funding reductions totaling \$11,111,000 are proposed for programs such as Regional Aquifer Systems Analysis, Core Research, Cooperative Data Collection, and Water Use Programs and Supporting Services. No funds are requested for the Water Resource Research Institutes or the Federal Coal Hydrology Investigations.

National Water Summary

The U.S. Geological Survey established the National Water Summary program in 1981 to assemble information about the condition of the Nation's water resources and to make water information and analyses readily accessible to Congress and government agencies. The Summary provides information about changes and trends in the availability, quality, and use of water resources.

The first annual report, "National Water Summary 1983--Hydrologic Events and Issues," which was published in January 1984, highlights water issues of concern to each State. Additional reports in the series will describe specific water issues of national interest and concern. A National Water Summary is planned for 1984 and another for FY 1985.

An analysis of the 1983 State issues identified a number of major concerns that appear to have nationwide significance including water availability, reliability of both supply and quality of ground- and surface-water, pollution sources, acid rain, flooding, and the impacts of resource development.

Acid Rain

The possible environmental effects of acid rain are in the public spotlight and are of great concern, because the problem is not yet fully understood. The Geological Survey's research and monitoring program in acid rain is coordinated through the Interagency Task Force on Acid Precipitation and is directed to collect and interpret data to help policy makers formulate decisions regarding the control or abatement of acid rain. The USGS portion of the acid rain program will continue at the FY 1985 base level.

An example of the scientific findings being produced by the USGS Acid Rain Program is the recent report by John T. Turk titled, "An Evaluation of Trends in the Acidity of Precipitation and the Related Acidification of Surface Water in North America." In the Northeast, the acidity of precipitation increased considerably from an unknown starting date through the 1950's, but has been largely stabilized since the mid-1960's. Relatively sparse data available for the Southeastern United States, show that precipitation is more acidic than would be expected for sites unaffected by manmade emissions. In the Western United States, available data suggest that precipitation and surface waters at scattered locations may have been acidified by localized human activities, but the timing of the initial acidification is unknown. The data available are not yet adequate to permit identification of trends in acidification for all regions of the Nation.

Nuclear Waste Program

The USGS has a key technical supportive role in the earth science aspect of waste repository site selection and evaluation. The Nuclear Waste Policy Act of 1982 prescribes the procedures, responsibilities, and schedules for selecting the first and second high-level waste repositories. The Department of Energy is currently investigating nine potential sites in Washington, Nevada, Texas, Utah, Mississippi, and Louisiana to select the first high-level waste repository in the United States. USGS has the lead role in characterizing for the DOE the geology and hydrology of the Yucca Mountain proposed repository site, Nevada Test Site, Nevada, and relatively minor but significant technical review roles at all the other eight potential sites.

Regional Aquifer Systems Analysis (RASA)

Large increases in withdrawal from the Nation's ground-water reserves are expected to occur during the coming decades as a result of increased irrigation, water needs for energy production, water demands of urbanizing areas, and the continuing desire to establish drought-resistant water-supply systems. The RASA Program is designed (1) to determine the availability and chemical quality of ground-water stored in regional aquifers, the recharge-discharge characteristics of the aquifers, and the hydrogeologic and geochemical controls that govern the response of the aquifer systems to stresses; and (2) to provide the basic information and criteria required for development and management of the Nation's water, particularly in water-short areas. Since 1978, nineteen regional aquifer systems have been or are being studied. Two-hundred reports have been released, and another fifty reports are under review. In FY 1985, the RASA program will be reduced \$1,212,000 to a new level of \$14,637,000 which will allow for the continuation of 10 regional aquifer studies and seven Phase II investigations. The Ohio-Indiana Carbonates/Glacial Aquifer and the Central Texas Carbonate Aquifer studies will be deferred until FY 1986.

Core Research in Hydrology

The Core Hydrologic Research Program focuses on a diverse agenda of research topics aimed at providing new knowledge and insights into inadequately understood hydrologic phenomena, processes, and systems. A significant emphasis in recent years has been the area of snow and ice physics. Studies of the Columbia Glacier near Valdez, Alaska, have led to the development of numerical models which predict a rapid retreat of the glacier during the mid-1980s. Such a retreat could greatly increase iceberg production from the glacial face, and possibly increase iceberg hazard to shipping around Valdez. Using techniques such as time lapse photography, an extensive monitoring

program is underway to monitor the status of the glacier, and refinement of mathematical models as glacial behavior continues. Another USGS activity has been using the passive microwave detection capabilities of NASA's Nimbus-7 satellite to study snow accumulation and ice formation in the Arctic and Antarctic regions. Efforts are presently underway to apply these techniques to mapping the water content of snow in the upper Colorado River basin in order to enable better prediction of water availability and flood potential associated with the snowmelt. The FY 1985 Core Hydrology Research program is funded at \$6,486,000, a reduction of \$1,000,000 from FY 1984.

National Mapping Program

A budget of \$90,396,000 is being requested to support the National Mapping Program. The Geological Survey is the Nation's principal civilian mapmaking agency and coordinates national mapping requirements throughout the Federal Government. A net increase of \$272,000 is requested; however, reductions are proposed in programs for special mapping, remote sensing applications and the systems for airborne profiling of terrain and side-looking radar. Program activities for FY 1985 emphasize expansion of the Digital Cartography program by \$3,050,000, to a level of \$11,328,000, to produce and make available computer-based digital cartographic data from existing map series for use by the Geological Survey and other Federal agencies. Increased funds will provide the digitized cartographic data required by 1987 for the taking of the 1990 census. Other proposals in the FY 1985 budget request include enhanced receipts of \$1 million from the sale of Survey maps to recover the costs of printing and distribution, and increased user fees to partially offset decreased appropriations for cartographic and geographic information services.

Digital Cartography Coordination

As chair of both the Interior Digital Cartography Coordinating Committee and the Federal Interagency Coordinating Committee on Digital Cartography, The Geological Survey is taking an active role in developing standardized multipurpose digital data formats, coordinating requirements for digital cartographic data, and eliminating single-purpose digital cartographic data production efforts. Through the development of the National Digital Cartographic Data Base the Geological Survey is producing multipurpose data in response to the requirements of Federal and State users. To date, over 27,500 1:24,000-scale digital cartographic units have been produced and placed in the data base.

One major interagency effort directed at the elimination of duplicative production is the joint Geological Survey/Bureau of the Census project to digitize, for the conterminous United States, all hydrography and transportation data categories of data from 1:100,000 scale-maps. The data resulting from this effort will be used in support of the 1990 Decennial Census and be available, through the Geological Survey's National Digital Cartographic Data Base, to other requesting Federal agencies, such as the Federal Highway Administration, Federal Emergency Management Agency, Nuclear Regulatory Commission, Department of Defense and the Bureau of Land Management.

In addition, the Geological Survey and the Defense Mapping Agency are undertaking a joint project to develop, under contract, an automated cartography software system to be used to produce Defense Mapping Agency's 1:50,000-scale topographic maps from Geological Survey 1:24,000-scale digital cartographic data. Both agencies will receive benefits from this effort through the ability to produce a variety of derivative map products from data residing in their respective digital cartographic data bases.

Provisional Maps

In FY 1982, the Geological Survey began publishing some of the new primary maps as provisional editions. In FY 1985, almost all new primary maps will be published as provisional editions. Provisional edition maps have essentially the same level of information as the standard edition topographic maps. Considerable savings however, are being realized through the elimination of

some field related activities and a reduction in the amount of cartographic finishing work; activities which can be performed in conjunction with the revision of the maps. One major benefit of this approach is that it places map products in the hands of users more quickly to assist in decisions on land management, resource exploration, and development. The implementation of provisional edition production techniques will allow the Geological Survey to accomplish its goal of complete national coverage of the primary map series in FY 1989.

Side Looking Airborne Radar

Between FY 1980 and FY 1983, the Geological Survey has expended approximately \$8.4 million to acquire, archive, market SLAR data, and to conduct research studies on SLAR data applications. During this time, SLAR data has been acquired for over 385,000 square miles of Alaska and the Appalachian region. In FY 1984, the Geological Survey will spend an additional \$1.5 million on acquisition, applications research, and promotion and marketing of SLAR data. No FY 1985 funds are being requested. Sufficient SLAR data to demonstrate the utility of this technology will have been acquired through FY 1984. Additional data can be acquired by the private sector without expenditure of government funds.

Research Agenda

The Geological Survey is a major contributor to the earth science research effort of the Nation. We are engaged in an internal process of reviewing Bureau research priorities to ensure that the emphasis of our research is on topics that anticipate the needs of the Nation. We plan to publish our analysis this Fiscal Year because we believe it will help Federal decisionmakers understand the purpose of the research component of the total USGS program. The following examples illustrate our effort. One-half of the Nation's population relies on ground water for its domestic supply. Although how much of this resource has been contaminated is unknown, estimates of contamination and the need to shut down many wells indicate the Nation is confronted by a significant problem. Research on the physical, chemical and biochemical processes by which contaminants move in the surface and subsurface and analytical and numerical methods for prediction of contaminant transport provides the basis for sound policymaking aimed at preventing new contamination and ameliorating existing problems.

In the minerals area, projected cumulative demand by the year 2000 for many mineral commodities exceeds the Nation's domestic reserves. Basic research on ore-forming processes will benefit efforts by both the USGS and industry to reduce the Nation's increasing dependence on foreign supplies.

There is a great need to have better information about fundamental earth processes and determination of the composition, structure, and dynamics of the crust which is fundamental to all aspects of the earth sciences. Studies in these areas would help increase our understanding of the formation of petroleum, geothermal, and mineral resources, as well as geologic processes controlling earthquakes and volcanism. Information on the long-term natural variability of atmospheric CO₂ is crucial to assessing the environmental impacts of burning fossil fuels. The USGS will maintain its effort to document the past natural variability of atmospheric CO₂ through study of the geologic record.

Mr. Chairman, I would be pleased to answer any questions you or the other members may have about our budget request and the programs that your subcommittee funds.

INTRODUCTION OF ASSOCIATES

Mr. PECK. Thank you.

I have with me at the table my Associate Director Doyle Frederick and the Assistant Director for Programs, Mr. Peter Bermel.

Senator McCLURE. Thank you very much.

Mr. PECK. I will, if I may, Mr. Chairman, very briefly summarize—

Senator McCLURE. I would prefer to go directly to questions if we can.

Mr. PECK. Thank you.

PROVISIONAL EDITION MAPS

Senator McCLURE. In fiscal year 1982, the USGS introduced the use of provisional edition maps in lieu of what can be considered a more finished map product. Although meeting national standards for content and accuracy, this lack of finishing allows for reduced production costs and thus makes these map products available to users more quickly.

How much time is saved in the production of a typical 7.5 minute primary quadrangle map?

Mr. PECK. As I recall, Mr. Chairman, the savings in cost is about 20 percent—15 to 20 percent. For the savings in time, about 1 year.

Senator McCLURE. You indicate that most new primary maps are now being published as provisional editions?

Mr. PECK. Yes.

Senator McCLURE. Are you also publishing revised maps as provisional editions, or is it easier or less costly to revise them as finished editions?

Mr. PECK. Most of the revised maps are, with the overlay, a sort of purple overlay, prepared by using aerial photographs. Our plan, as you know, Mr. Chairman, is, as we begin and become more capable in using digital cartography, to use a digital revision of the provisional maps as a more efficient way to proceed.

Senator McCLURE. Are those revisions then more keyed to the finished editions or to the provisional edition?

Mr. PECK. The revisions in the future will be to change the provisional edition into a standard edition. At the present time, the revisions, in a way, are neither standard nor provisional.

Senator McCLURE. Generally speaking, what has been the public comment and overall response to your introduction of these provisional maps as substitutions for the more finished product that people usually expect from the Survey?

Mr. PECK. The public has been very enthusiastic. Of course, the bottom line is that we can turn out more maps faster so that new maps are available for areas that were covered, only at a much smaller scale.

I, myself, react very favorably as a geologist to the maps because there are additional data on the maps that are not available in the standard edition.

I think Mr. Frederick would like to add a comment.

Senator McCLURE. Surely.

Mr. FREDERICK. Let me add just one comment. I think I would agree, the reaction has been favorable because that allows us to get more maps on the market sooner.

There are some deficiencies in the provisional maps, though, that cause some concern. It isn't completely finished; it isn't completely field-checked; and we have concluded that we have sacrificed something by those provisional maps.

But we also concluded that it is worth it to do that to enable us to finish completion of coverage in areas where people need the map.

And, as Dr. Peck said, we intend to structure revision programs in future years that will take those provisional maps, upgrade them to complete maps, and provide the product.

Senator McCLURE. Now, you say there is some concern about the fact you sacrifice something. Is that an internal concern or is that public or user's concern as expressed to you?

Mr. FREDERICK. That is both. There is some internal concern, of course, in terms of our commitment to providing accurate products. But there is also some user concern.

But I would like to emphasize, Mr. Chairman, that that concern was kind of outweighed by the fact that you can get the maps out sooner.

Senator McCLURE. Am I correct in guessing that the lack of finished detail and accuracy is of more concern to the Geological Survey than it is to users?

Mr. FREDERICK. I wouldn't quite agree with that, Mr. Chairman, but that is a factor. I have to conclude that there is a certain amount of pride in producing the map.

Senator McCLURE. And justified pride. I am not critical.

Mr. FREDERICK. But there are some legitimate concerns on the part of the users regarding the actual identification of information on those products. Accuracy is still there, with the exception of the identification of names and those kinds of things.

Mr. PECK. A lot of the difference is field check is more rapid, so that there are not as many names and features, and some of the cultural things like roads and buildings are not identified as narrowly as they were in the standards.

DIGITAL CARTOGRAPHY COORDINATION

Senator McCLURE. In October 1982, the Secretary of the Interior established the Interior Digital Cartography Coordinating Committee and named the USGS as the committee's chair. Among other things, this committee found that the Survey did not have the resources to produce digital cartographic data to meet all Government-wide requirements in a timely manner.

Approximately 6 months later, in April 1983, OMB established a 23 agency Federal Interagency Coordinating Committee to begin collecting information on Federal digital cartographic activities and requirements. This Federal committee's first report was sent to OMB last October.

Briefly, what did this initial report say?

Mr. PECK. I think I will turn that question over to Mr. Rupe Southard, the head of our National Mapping Division.

Mr. SOUTHARD. Mr. Chairman, the first report to OMB, which went to them last fall, did several things. It called attention to the amount of digital cartography activity that was going on in the Federal Government. It was based on a fairly quick inventory that we were able to conduct last summer.

We were able to point to the fact that more and more agencies were involved in digital cartography and were requiring assistance in digital cartography, oftentimes in terms of the sorts of products that the Geological Survey could furnish to them.

But as will happen in Federal activities in many cases, the agencies have begun to set up their own activities and have begun to collect data for themselves and to put it together in their own ways to solve their own program problems. We have identified for OMB and for the community the ways in which we think Geological Survey reaction to customer requirements can cut down some of that seeming duplication and also make the resulting products available to all members of the community—Federal, State, local, and public users as well.

Senator McCLURE. Well, would I conclude from that remark that the question of the separate users' needs was identified and discussed and some criticism of the joint effort was made?

Mr. SOUTHARD. Not so much criticism. At least, the criticism wasn't very sharp, Mr. Chairman. It is such a useful technology that many of the agencies were examining the uses of it for themselves and were exercising their computer technology for themselves in the use of spatial data.

So it is not so much a point of criticism as pointing to the fact that it was going on and that there seemed to be ways to improve on that.

Senator McCLURE. Have there been subsequent reports?

Mr. SOUTHARD. There is a report that is in preparation now, Mr. Chairman.

Senator McCLURE. But none that has been filed or completed since October?

Mr. SOUTHARD. None since the October report.

Mr. PECK. Mr. Chairman, if I could add a little bit. There is a problem in that there are very large needs by many agencies and State and local entities for digital cartography at a large scale, the 1-to-24,000 scale, and we are trying within our somewhat constrained budget to meet those needs.

But at the same time we started up very important and large digital cartography efforts with the Bureau of the Census to prepare jointly with census a 1-to-100,000—a small scale data base of the hydrography and transportation network so that they will be positioned to use that for making maps for the numerators for the 1990 census. This would be a major step forward and will provide the Nation with that 1-to-100,000 data base, usable for many other things.

So we are trying to do two large jobs at the same time.

Senator McCLURE. Could I ask what, if any, outcome has OMB seen as a result of that interagency group that they convened and the report that was filed in October? Following that, can you tell me what OMB has concluded as a result of that interagency study?

Mr. PECK. I am not aware of any.

Mr. SOUTHARD. We were able to get the first report to OMB before they made their passback, so their passback through Geological Survey as well as to the other members of the Federal community was able to take advantage of the knowledge that we presented to them in that first report.

Senator McCLURE. You mean the passback on each individual agency's budget submission?

Mr. SOUTHARD. We have reason to believe that their opinions resulting from our report were reflected in several of the budgets that we know of. Certainly, it did have an effect on ours.

USGS/BUREAU OF CENSUS JOINT DIGITAL EFFORT

Senator McCLURE. You made reference to the 1-to-100,000 scale quadrangle.

What are the 1984 and 1985 costs associated with that effort, particularly as it deals with the joint efforts of the Bureau of Census?

Mr. SOUTHARD. We are asking for—let me see if I can find that, please.

In 1984 we are operating on a base of about \$8 million. We are asking in 1985 for an increase of \$3 million for that, which is heavily oriented toward the need of the census program.

Mr. PECK. As I recall, Mr. Chairman, at the present time under our budget of about \$8 million, \$3 or \$4 million is used for addressing the 1-to-24,000 needs and the remaining \$4 to \$5 million is used for addressing the 1-to-100,000 needs.

Is that correct, Rupe?

Mr. SOUTHARD. Yes.

Senator McCLURE. Is it fair to say the 1-to-100,000 need is primarily in support of the 1990 decennial census.

Mr. PECK. That is the initial impetus, and with rather tight time constraints. We have to have it finished as early as possible in calendar year 1986 in order to meet census needs. But that will have a lot of utility for many other agencies.

The Department of Transportation, for example, can use that in summarizing data on highways. We will be using it ourselves for a framework for our water data and mineral resource data.

Soil Conservation Service is interested in using it. It will have utility with the Bureau of Land Management and the Forest Service in their geographic information systems. It will have broad applications.

DEPARTMENT OF COMMERCE REIMBURSEMENT TO USGS

Senator McCLURE. I notice on page SE-16 of the justification the Department of Commerce is expected to reimburse USGS only \$40,000 for all mapping work conducted in fiscal year 1985.

Why isn't the Department of Commerce reimbursing more of the actual cost for this activity?

Mr. PECK. Actually, Commerce is—I don't know why that figure is in the table. Because of a concern by the Bureau of the Census for our meeting the deadlines they are supplying funds for the purchase of additional edit stations for the equipment that does the digitizing, and I think over this year—over fiscal year 1984 they will have provided in excess of \$1 million.

Senator McCLURE. Will you or someone else look at page SE-16?

Mr. PECK. Yes, sir; I am looking.

Senator McCLURE. Look at that first half of the page which shows the funding for Geological Survey programs, the national mapping, geography, and surveys.

Mr. PECK. Yes; I see the figure, Mr. Chairman, and I think that is not up to date. We would be very pleased to supply you an up-to-date figure for those funds.

Senator McCLURE. If this table is not accurate and up to date, would you provide me with more up to date information? Not just with respect to the Department of Commerce, but that would also apply to other charges as well.

Mr. PECK. We would be pleased to. I have been provided by Mr. Bermel a revised table that shows an estimate for 1984 of \$1 million from census, an estimate for fiscal year 1985 of \$2 million, but we will provide you the revised table.

[The information follows:]

Funding of Geological Survey Programs (Obligations)

	FY 1983 Actual	FY 1984 Estimate	FY 1985 Estimate
National Mapping, Geography and Surveys:			
Direct appropriation-----	81,115,929	81,624,000	80,896,000
Indefinite appropriation-----	--	8,500,000	9,500,000
States, counties, and municipalities--	1,990,723	1,800,000	1,700,000
Sale of Maps, Photos & Digital Products - non-Federal-----	1,007,766	1,950,000	2,100,000
Miscellaneous non-Federal sources----	202,236	190,000	170,000
Bureau of Indian Affairs-----	217,578	260,000	230,000
Bureau of Land Management-----	331,230	355,000	225,000
Department of Agriculture-----	2,306,387	1,900,000	1,465,000
Department of Commerce-----	104,731	1,000,000 *	2,000,000 *
Department of Defense:			
Military-----	1,027,580	3,800,000	3,800,000 *
Civilian-----	--	25,000	25,000
Department of Energy-----	40,000	265,000	--
Fish and Wildlife Service-----	210,686	300,000	275,000
Minerals Management Service-----	162,163	100,000	125,000
National Aeronautics & Space Admin.--	--	50,000	50,000
National Oceanic & Atmospheric Admin.	25,403	5,300,000	6,200,000
National Science Foundation-----	100,000	200,000	200,000
Office of Surface Mining-----	95,000	--	--
Treasury-----	213,497	150,000	100,000
Training and Special Projects-----	--	130,000	130,000
Sale of Maps, Photos, Reproduction & Digital - Federal-----	983,070	1,250,000	1,400,000
Miscellaneous Federal Agencies-----	305,899	175,000	135,000
Total-----	90,450,878	109,324,000	110,726,000
Geologic and Mineral Resource Surveys and Mapping:			
Direct appropriation-----	159,096,416	162,232,000	156,205,000
States, counties and municipalities:			
Unwatched-----	675,253	580,000 *	580,000 *
Permittees and licensees of the Federal Energy Regulatory Comm.----	255,898	--	--
Kingdom of Saudi Arabia-----	14,775,000	14,150,000 *	14,000,000 *
Miscellaneous non-Federal sources----	1,259,372	1,875,000	1,875,000
Agency for International Development--	2,017,598	2,260,000	2,260,000
Alaska National Wildlife Refuge-----	--	696,000	696,000
Bureau of Indian Affairs-----	2,753,207	2,518,000	2,518,000
Bureau of Land Management-----	4,066,317	1,315,000	1,315,000
Bureau of Mines-----	98,460	70,000	70,000
Bureau of Reclamation-----	42,500	257,000	257,000
Central Intelligence Agency-----	154,332	160,000	160,000
Department of Defense:			
Military-----	5,048,603	20,488,000	9,612,000
Civilian-----	89,467	300,000	300,000
Department of Energy-----	6,486,085	6,885,000	6,885,000

* Indicates revised estimates from the FY 1985 Budget
Justification.

	FY 1983 Actual -----	FY 1984 Estimate -----	FY 1985 Estimate -----
Earth Sciences Application:			
Direct appropriation-----	11,130,000	--	--
Aerial photos, spacecraft imagery, & data to non-Federal sources-----	1,527,236	--	--
Miscellaneous non-Federal sources----	96,973	--	--
National Oceanic & Atmospheric Admin.	4,951,958	--	--
National Aeronautics & Space Admin.--	135,765	--	--
Training and Special Projects-----	155,811	--	--
Aerial photos, spacecraft imagery, & data to Federal sources-----	387,290	--	--
Miscellaneous Federal Agencies-----	211,605	--	--
	-----	-----	-----
Total-----	18,596,638	--	--
General Administration:			
Direct appropriation-----	14,931,000	15,494,000	15,397,000
Miscellaneous Federal Agencies-----	107,940	--	--
Bureau of Mines-----	80,904	--	--
Minerals Management Service-----	1,276,886	650,000	--
	-----	-----	-----
Total-----	16,396,730	16,144,000	15,397,000
Facilities:			
Direct appropriation-----	9,022,000	10,445,000	13,290,000
Minerals Management Service-----	135,194	145,000	--
	-----	-----	-----
Total-----	9,157,194	10,590,000	13,290,000
Misc. Services to other accounts:			
Miscellaneous non-Federal sources----	124,699	210,000	210,000
Computer services to Federal Agencies	7,944,091	6,450,000 *	3,259,000 *
Miscellaneous Federal Agencies-----	125,590	100,000	100,000
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Total-----	8,194,380	6,760,000	3,569,000
Contributed Funds:			
Indefinite appropriation-----	--	500,000	500,000
Summary:			
Surveys, Investigations, & Research:			
Direct appropriation:			
Current-----	390,338,715	397,430,000	382,312,000
Indefinite appropriations-----	--	9,000,000	10,000,000
States, counties and municipalities--	50,583,035	52,993,000	53,957,000
Other non-Federal sources-----	22,999,965	22,375,000	22,355,000
Other Federal agencies-----	85,131,023	100,943,000	87,008,000
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Total - SIR-----	549,052,738	582,741,000	555,632,000

	FY 1983 Actual -----	FY 1984 Estimate -----	FY 1985 Estimate -----
Earth Sciences Application:			
Direct appropriation-----	11,130,000	--	--
Aerial photos, spacecraft imagery, & data to non-Federal sources-----	1,527,236	--	--
Miscellaneous non-Federal sources----	96,973	--	--
National Oceanic & Atmospheric Admin.	4,951,958	--	--
National Aeronautics & Space Admin.--	135,765	--	--
Training and Special Projects-----	155,811	--	--
Aerial photos, spacecraft imagery, & data to Federal sources-----	387,290	--	--
Miscellaneous Federal Agencies-----	211,605	--	--
	-----	-----	-----
Total-----	18,596,638	--	--
General Administration:			
Direct appropriation-----	14,931,000	15,494,000	15,397,000
Miscellaneous Federal Agencies-----	107,940	--	--
Bureau of Mines-----	80,904	--	--
Minerals Management Service-----	1,276,886	650,000	--
	-----	-----	-----
Total-----	16,396,730	16,144,000	15,397,000
Facilities:			
Direct appropriation-----	9,022,000	10,445,000	13,290,000
Minerals Management Service-----	135,194	145,000	--
	-----	-----	-----
Total-----	9,157,194	10,590,000	13,290,000
Misc. Services to other accounts:			
Miscellaneous non-Federal sources----	124,699	210,000	210,000
Computer services to Federal Agencies	7,944,091	6,450,000 *	3,259,000 *
Miscellaneous Federal Agencies-----	125,590	100,000	100,000
	-----	-----	-----
Total-----	8,194,380	6,760,000	3,569,000
Contributed Funds:			
Indefinite appropriation-----	--	500,000	500,000
Summary:			
Surveys, Investigations, & Research:			
Direct appropriation:			
Current-----	390,338,715	397,430,000	382,312,000
Indefinite appropriations-----	--	9,000,000	10,000,000
States, counties and municipalities--	50,583,035	52,993,000	53,957,000
Other non-Federal sources-----	22,999,965	22,375,000	22,355,000
Other Federal agencies-----	85,131,023	100,943,000	87,008,000
	-----	-----	-----
Total - SIR-----	549,052,738	582,741,000	555,632,000

OTHER COMMERCE CONTRIBUTIONS

Mr. FREDERICK. Mr. Chairman, there is one more thing to say on that part. In addition to the money that census will provide to us as a reimbursable item, they are contributing probably half of the amount of the total effort.

We are providing digitized information on the transportation network and the surface hydrography. They are doing the checking of the information, adding additional information on boundaries, and providing that information back to us. So it truly is a partnership kind of program.

We will provide them basic information, and they will be providing information back to us for the multipurpose data base.

So, we are spending about \$4.3 million this year in fiscal 1984 and we will spend \$7.8 million in fiscal year 1985. They will spend the equivalent amount, we expect, on this particular project.

Senator McCLURE. Does that increased contribution from Commerce imply an expanded program, or is that a substitution of money?

Mr. PECK. Mr. Chairman, what that partly reflects is the awareness on both their part and our part of the real magnitude of the job to be done. We have been doing a pilot study on Florida over the last year, and we have found it is perhaps a more challenging job to digitize all the quadrangles in the 48 States than we had thought it was originally. In order to meet the very rigid deadline for census needs we both became aware of the need for additional equipment and funding.

Senator McCLURE. So the increased contribution from Commerce is not expanded in the sense of scope, but it is expanded in the sense of dollars, is that correct?

Mr. PECK. And in terms of our awareness of what has to be done.

Mr. FREDERICK. Mr. Chairman, if one looked at what census might need to have done if we didn't choose to go in this direction, my guess is they would have needed to spend about this much money anyway preparing graphic products that didn't support the multipurpose data base or perhaps would not be completely adequate to meet the census enumeration requirement, nor would they provide a data base for displaying census-related kinds of materials.

I haven't looked specifically at the comparison of the cost of census doing the mapping for the decennial operations conventionally versus doing it digitally, but my guess is the costs are comparable overall.

Mr. PECK. And furthermore, there will be a real savings when it comes time to get ready for the year 2000 census.

Senator McCLURE. I don't question that. What I am trying to get at at this particular point is that you show a \$40,000 reimbursement and a \$1.5 million reimbursement. You now tell me that is going to be \$2 million. That means you have about \$1.5 million more than was shown in your costs.

What are you doing with that million and a half?

Mr. PECK. It is primarily the purchase of edit stations so that our staff can go over the digitized data and label all the lines properly.

FEDERAL MINERAL LAND INFORMATION SYSTEM

Senator McCLURE. In fiscal year 1983, the Survey conducted a pilot project on the Medford, OR, 1-to-250,000 scale quadrangle area in conjunction with the BLM to demonstrate the concepts and capabilities of a Federal mineral land information system.

Could you describe briefly what results have been demonstrated so far by that pilot project?

Mr. PECK. Yes; in that pilot project we were able to combine on a 1-to-250,000 base a variety of data—geologic and mineral resource data from our own files and, as shown in the graphic there, information on ownership of Federal lands, which we obtained from primarily the Bureau of Land Management, and information on restrictions to mining which we also obtained from BLM and from the Forest Service.

The pilot study was successful, and we have gone on from there to work with BLM to do a similar study of a large area, a large part of the State of Alaska, where we have a wealth of mineral data from our AMRAP Program, and BLM has already an automated information system on land ownership.

We are also going to be doing, in cooperation with BLM and the Forest Service, a Silver City 1-to-250,000 sheet that spans Arizona and New Mexico. This area fits in with BLM's program to automate their land records. We are going to be tackling Arizona and New Mexico first.

Senator McCLURE. Do you have specific problems with respect to that? Has the Demonstration Program illustrated to you deficiencies or problems?

Mr. PECK. We are still working toward the problem. There is a wealth of data that could be included in this sort of a project. The question is what is the most useful kind of data and useful combination of data for the land manager because this is aimed at the needs of the land manager, whether it be BLM or the Forest Service, and we are still working with them to define what is the optimum combination.

Senator McCLURE. What plans do you have for fiscal 1985 to resolve that kind of question?

Mr. PECK. We will be continuing the work in Alaska and New Mexico. I think we will be able to get closer to a more complete project, a more complete product, and a better definition of the needs in fiscal year 1985.

Senator McCLURE. Well, as you know from our previous hearings and conversations, I am very much concerned about mineral data.

There is also a question not only for the land manager in terms of how they use it, but also a very serious question for those of us in the Congress as we try to establish policy, directives, and guidelines for the land managing agency.

Mr. PECK. Yes, indeed, Mr. Chairman. I think it also fits into the planning process for BLM and the Forest Service, where they are trying to balance the needs for reclamation and grazing and timbering and mining in the best sort of way; so this program should help provide for the optimum use of the land.

FLOODING IN TUG FORK, WV, BASIN

Senator McCLURE. May I yield to the distinguished Senator from West Virginia?

Senator BYRD. Mr. Chairman, I appreciate your kindness in yielding to me.

The questions I have relate to your Water Resources Program, headed, I believe, by Dr. Cohen.

We have had some recent bad flooding in the Tug Fork Basin in southern West Virginia, and I was down there yesterday and saw, not for the first time, but I saw again the effects of flood and the hardships that have been placed upon people caused by that flood, and saw many people pitching in to help one another to clean out their houses, their churches, their businesses, and shoveling mud out, hosing it out with water hoses, and out in the yards I saw their living room furniture had been ruined.

I saw the inventories of the businesses out along the sidewalks while the owners were trying to sweep and hose the mud out of their stores, and the estimates of the damage are yet to come forth.

The flood was not as serious as the one which occurred in that area in 1977, which I believe was a 500-year flood, according to the Army engineers.

These people showed great spirit in trying to put things back together again and start over again. Many of them still owe on loans that date back to the 1977 flood, and even though they have that strong spirit, each new flood brings about an attrition of people who leave the area and may not return.

So more and more the tax base is deteriorating, and more and more those people who do stay are paying more and more of the burden for less and less received in return therefrom.

I worked for years trying to get a flood wall and pump stations for the people down there. But it struck me as I listened to the mayors of some of those communities yesterday that it might be helpful if they could have an improved flood forecasting system.

Such a system might add additional rainfall and stream flow monitoring devices, together with more sophisticated techniques for modeling and predicting flood crest levels in the Tug Fork Basin because the improved information would give the local residents more time to prepare for the worst and to make preparations and possibly to be able to move their possessions and in some instances save their own lives.

I recognize that the Geological Survey does not have the responsibility to forecast such events, but I understand that you do maintain a nationwide series of stream gauges and that you closely monitor highly flood prone areas such as Tug Fork Valley.

Could you state at this point your ongoing efforts with respect to that area and how you have coordinated with the National Weather Service and the Army Corps of Engineers on monitoring the river and specifically what response the Survey has made to this recent disaster?

Mr. PECK. Senator, as you pointed out, the National Weather Service has the lead in flood forecasting, but they use for that flood forecasting many of our stream gauging stations with satellite relays on the stations. We have a very fine cooperative relationship with them.

For the details of that area, I would like to turn it over to Mr. Phil Cohen, our chief hydrologist.

EXISTING GAUGING STATIONS IN WEST VIRGINIA

Mr. COHEN. Senator Byrd, the Geological Survey operates about 12,000 gauging stations throughout the United States, and in West Virginia we operate 85 gauging stations which are equipped with continuous recording devices and 7 gauging stations which do not have continuous recording devices.

As Dr. Peck indicated, the National Weather Service relies very, very heavily upon the Geological Survey's gauging stations for flood forecasting. At last count I believe they were using approximately 2,300 of our gauging stations, and I am fairly certain that most, if not all, of the gauging stations in the Tug Fork—as a matter of fact in all of West Virginia—that are used for flood forecasting are operated by the Geological Survey.

The source of funding for those gauging stations comes from other Federal agencies, funding directly appropriated to the Geological Survey, and, most importantly, funding in cooperation with State and local agencies.

We have formal cooperative agreements with about six or seven agencies in West Virginia. At the present time, during high water, as is the case in the Tug Fork Basin, our people are working virtually 24 hours per day, ensuring that the gauging stations are in operation.

I don't know if any have been washed out in Tug Fork, but if they are, we are making miscellaneous measurements, and these data are keyed directly into the National Weather Service's flood forecasting system, which relies on the mixture of measurements at a point. As you indicated, the responsibility for issuing flood warnings are with the National Weather Service.

With regard to the Tug Fork Basin, as a result of the continued problem of flooding, beginning in the late 1970's, the Geological Survey, in cooperation with the Office of Surface Mining and the Bureau of Mines, conducted a very detailed investigation of flooding in the Tug Fork Basin. The principal question that we addressed was whether or not flooding was exacerbated as a result of strip mining. There had been a lot of speculation that as a result of strip mining there was more runoff for given units of precipitation than before strip mining, and the study is virtually completed.

We have been providing your office with quarterly reports. We have published a formal report which indicates, somewhat to the surprise of many people, that strip mining has only added marginally to the flooding problem.

Senator BYRD. Well, I understand the problem with reference to surface mining runoff. What I am talking about now is what can be done to improve the forecasts to the residents and the business people in a flood prone area like Tug Fork Valley?

They, for example, may get information that would indicate that the river will crest at such and such a time and that it will crest at, let's say, 32 feet, when the local residents know already that it is already past that 32 feet and it is still rising.

And what I am asking here is: What can be done to improve the information with respect to the cresting, the stream flow, so as to give these people time to get out of their homes, save some of their possessions, and save some of their inventory in the stores and make some preparations and in some instances to save their lives?

That is what I am talking about. I am not talking about surface mining and all that right now. I am talking about what happens when the crisis comes.

So, how many stream gauges and rainfall monitoring devices does the Geological Survey presently maintain in the Tug Valley?

Mr. COHEN. I have to rely upon my memory, and I believe, as a result of the study which I mentioned to you earlier, we did upgrade the stream gauging network, and I think we have something on the order of a dozen gauging stations in the Tug Fork.

Senator BYRD. I didn't hear your—

Mr. COHEN. I believe we have something on the order of a dozen—12 gauging stations in the Tug Fork Basin.

Senator BYRD. I wish you would speak like that all the time. Put that microphone up close so everyone can hear you. Thank you.

Now, how many of these are permanent and continuous monitoring stations?

Mr. COHEN. I don't have the precise numbers, Mr. Chairman, but I would—based upon our general distribution, I would estimate about nine.

Senator BYRD. Would additional monitoring stations assist you in a more accurate understanding of the hydrology of the area?

Mr. COHEN. In general, Mr. Chairman, we can state that the greater the number of gauging stations, the better one can define the hydrology of the basin. I cannot be specific with regard to the number of gauging stations required in the Tug Fork Basin because one must examine the runoff models that have been used to predict floods and determine, if in fact they have been inaccurate, what additional data would have been needed.

JOINT STUDY WITH WEATHER SERVICE AND CORPS OF ENGINEERS

Senator BYRD. I wish your division would undertake a study jointly with the National Weather Service and the Corps of Engineers to determine what can be done to provide more accurate and more timely flood warning information to the residents of the Tug Valley, what can be done to improve the warnings in the future.

Would you think such a study would be recommended in this area and in this type of situation?

Mr. COHEN. I believe so, Senator Byrd, and I believe we are in reasonably excellent shape to do it in view of the fact we have recently completed our study of the Tug Fork Basin. So we do know the hydrology of the basin very well.

Senator BYRD. All right. I will get in touch with the Army engineers and the National Weather Service.

As I understand your response, the Geological Survey would be cooperative in regard to such a study?

Mr. COHEN. Yes, sir.

Senator BYRD. I wish that the study would indicate to this subcommittee what kinds of additional equipment should be installed and at what estimated cost.

Mr. COHEN. Yes, sir.

Senator BYRD. Thank you very much, and thank you, Mr. Chairman, for your characteristic courtesy to me.

Senator McCLURE. Thank you very much Senator Byrd. I appreciate your assistance and service on this committee. I am delighted to have you here and pleased we were able to accommodate your schedule.

Senator BYRD. Thank you.

EARTHQUAKE PROGRAM

Senator McCLURE. Moving now to geologic hazards surveys, you have again this year proposed reductions in earthquake and volcano hazards reduction, despite continued congressional action over the past few years to maintain higher budget levels for these programs.

Specifically, regarding earthquake hazard reduction, you are proposing a reduction of \$3 million from the 1985 base level. According to your justification, this would reduce the geodetic and crustal strain monitoring network by 10 percent; reduce geophysical and geochemical data sites by 14 percent; reduce by some 50 stations the number of seismic monitoring sites; discontinue work on 10 earthquake mechanism and prediction methodology studies; and discontinue five geologic field projects on earthquake potential in California.

While we may be placing more importance on the actual impacts of these reductions than we should be, one cannot help but think that these reductions and discontinuations will leave harmful and even potentially dangerous gaps in our Earthquake Research Program.

Would you care to comment and perhaps put these proposed reductions in the proper perspective?

Mr. PECK. Indeed, Mr. Chairman, the cut of \$3 million will result in those reductions, a reduction of about 50 seismic stations out of a total of about 500, and it will slow our Quake Prediction Program.

The budget of course was prepared under very constrained guidelines, and I think the overall budget of the Geological Survey is well-balanced with respect to different programs, but it is unfortunate that some deserving programs will have to be cut, and that will—may slow down progress in the area.

If I may, I would like to ask Dr. Hamilton, who is the chief geologist, the head of the Geologic Division and, incidentally, the current president of the Seismological Society of America, to respond more fully to that question.

Mr. HAMILTON. The ability to detect earthquakes, of course, is related to the number of instruments that you have in the field. So a reduction in the number of instruments would result in reduced data acquisition.

However, at the reduced level, we could continue the research, but the reductions, as specified in the budget, would be necessary.

Senator McCLURE. Would it be your intention to spread those reductions relatively evenly across the entire program, or will you maintain current levels of activity in selected areas and eliminate activities in others?

Mr. HAMILTON. The \$3 million cut that is proposed for the budget would involve a \$2 million cut in the earthquake prediction subelement and \$1 million cut in the regional monitoring and earthquake potential element.

So of the five elements of the Earthquake Program, the \$3 million would be concentrated in those two areas.

Now, in terms of the geographic areas affected, the earthquake prediction area is largely concentrated in California. So a lot of the cuts would have to come there.

RATE OF SEISMIC ACTIVITY

Senator McCLURE. Have we had more or less seismic activity in the last year as compared to previous years?

Mr. HAMILTON. In recent years the rate of earthquake activity in northern California has picked up substantially. There, of course, was the earthquake near the San Jose area of California just a couple of weeks ago, and we have had a sequence of earthquakes in northern California. These have been moderate sized earthquakes, only magnitude of 5 or 6, but the earthquake activity in northern California has been higher in the last few years than in previous years.

Senator McCLURE. How about throughout the continental United States, not just in northern California?

Mr. HAMILTON. Yes; elsewhere, of course, as you are well aware, we had the strong earthquake in Idaho.

Senator McCLURE. Yes; I remember.

Mr. HAMILTON. And then just a few weeks ago we had the magnitude 4 earthquake in Pennsylvania near Lancaster. I have to supply for the record data as to whether the overall statistics of earthquakes this year are higher than in previous years, but certainly we have had several very significant events in the last few months.

Senator McCLURE. The reason I ask that question is we are reducing the size of the program not only in programmatic scope but also in geographic scope. It seems to me as a layman, according to the information I've seen from various sources, that we have had earthquake activity in regions of the country in which earthquakes have been relatively rare and unexpected.

Mr. HAMILTON. The earthquake in Idaho was actually in an area that we had identified as having a high potential for earthquake activity on a long-term basis.

Senator McCLURE. And there hadn't been one there for many, many years?

Mr. HAMILTON. Not in that particular area, although there are geologic faults in that area that the geologists had identified as having the potential for activity.

Senator McCLURE. And the same thing was true about the one in Pennsylvania, is that not correct?

Mr. HAMILTON. In Pennsylvania, the problem is the rocks that form the Appalachian Mountains pretty much cover the geologic faults that are responsible for the earthquake activity. In the Appalachians most earthquakes occur down around 5 to 10 miles deep beneath the rocks of the Appalachians, and so we are not able to see at the surface the faults that are causing most of the earthquakes.

But throughout the Appalachian chain we have earthquake activity from time to time of about that magnitude.

Senator McCLURE. But was that expected in that particular area, or is it a rare occurrence there?

Mr. HAMILTON. We had made no prediction of an earthquake in that area, but an earthquake of the magnitude of 4 anywhere in the Appalachians is possible, and so we would not be a bit surprised to have future earthquakes in that area or elsewhere along the chain.

Senator McCLURE. Would you provide for the record a comparison of earthquake activity, showing the frequency of earthquakes in the last year or two as compared to a longer historic base?

Mr. HAMILTON. Yes, sir, we will.

[The information follows:]

A COMPARISON OF EARTHQUAKE ACTIVITY IN THE UNITED STATES DURING THE LAST TWO DECADES

Since 1964, 1,969 moderate-to-large earthquakes (magnitude 5 and greater) have occurred in the 50 States.

Year	Conterminous 48 States	Alaska	Hawaii	Total
1964.....	12	229	0	241
1965.....	19	408	0	427
1966.....	10	91	0	101
1967.....	14	44	0	58
1968.....	10	33	0	43
1969.....	19	39	0	58
1970.....	17	39	0	56
1971.....	7	70	0	77
1972.....	8	63	0	71
1973.....	19	59	2	80
1974.....	18	55	4	77
1975.....	33	47	6	86
1976.....	37	28	2	67
1977.....	22	58	1	81
1978.....	18	46	0	64
1979.....	26	45	2	73

Year	Conterminous 48 States	Alaska	Hawaii	Total
1980.....	44	39	0	83
1981.....	10	48	2	60
1982.....	22	45	3	70
1983.....	26	51	3	80
1984 (through May 1984).....	7	9	0	16
Total.....	398	1,546	25	1,969

CONDITION OF HAWAIIAN VOLCANO OBSERVATORY

Senator McCLURE. What is the general condition of the Hawaiian Volcano Observatory?

Mr. PECK. The Hawaiian Volcano Observatory was built a very long time ago. It was originally a Park Service building, and I think at least one part of the building, perhaps predates the establishment of the Hawaiian Volcano Observatory in 1912.

Other parts of the building were built later, during the 1950's. The building was not in bad shape when I served there for several years, 20 years ago, but in the ensuing 20 years the building has suffered from, for one thing, a number of major earthquakes in Hawaii and just degradation because of fumes, sulfur-bearing fumes, and very high rainfall.

We, indeed, consider the building a liability, considering the very fine work being done at the Volcano Observatory, and a threat to the inhabitants of Hawaii by both Mauna Loa and Kilauea. We have a very fine computer there to locate earthquakes caused by and preceding volcano eruptions, and sometimes the roof leaks on the computer, which doesn't help at all.

We have been working with the Park Service in designing a shared building that would serve both our scientific needs but would also be a marvelous facility for visitors to the park to explain to them the nature of the volcanic process, the activity of the volcano and what scientists are doing to predict volcanic eruptions and to monitor continued eruptions.

Unfortunately, in a constrained budget climate, neither the Park Service nor the Survey has been able to go forward with funds for construction of the building.

Senator McCLURE. Do you expect a request from the Park Service, or on behalf of the Park Service, to come forward in the near future?

Mr. PECK. Unfortunately not. The Park Service is enormously sympathetic and cooperative in this matter as well as many other matters, but, indeed, they have limited funds and very high park use in many parts of the country. And so my understanding is that they would not be able to identify funds for construction of a new observatory for some years.

Senator McCLURE. Well, if that is true and if they are unable to make that request because of their own priorities, do you consider that requirement to be of sufficient importance for USGS to propose the necessary construction funds in the near future?

Mr. PECK. Well, we certainly have given it serious consideration and as we are now going through the preparations for the fiscal 1986 budget, we are considering this along with many other alternatives.

But of course, Mr. Chairman, you realize it is a very constrained budget climate. The costs are roughly \$5 million. If we identify that, that would be at the expense of other very deserving programs like the Earthquake Program we were just discussing. So I am not very sanguine about the outlook.

Senator McCLURE. You are not sure about the priority of the Hawaiian Volcano Observatory, but you assume it is not that high?

Mr. PECK. The priority in an overall sense is very high, but there are many needs in other programs.

Senator McCLURE. But there are many other very high priorities?

Mr. PECK. Yes, Mr. Chairman.

GEOMAGNETISM AND CLIMATE CHANGE REDUCTIONS

Senator McCLURE. In the areas of geomagnetism and climate change, you have proposed the exact same program reductions requested but not approved by Congress for fiscal year 1984.

Why do you continue to feel this research is expendable?

Mr. PECK. These are very excellent programs, Mr. Chairman, but, indeed, the budget was constructed under very constrained targets, and to meet those targets cuts were levied against programs all the way across the Bureau.

Senator McCLURE. And again, is this a question of priority?

Mr. PECK. Again a question of priorities and—

Senator McCLURE. The funding level for that particular program doesn't justify a higher priority, in your view, is that correct?

Mr. PECK. Part of the problem is when one establishes the cuts they tend to fall on programs that have long-range goals rather than ones with very immediate needs. Ones with immediate needs would be like the Wilderness Program.

I think the Climate Program is very important because the Geological Survey is unique in being able to look backward in time and look at past climates.

For example, CO₂. We have learned recently that there have been enormous changes in CO₂ and in climate in the past just as large or larger than the present changes in CO₂ we are seeing.

There is a lot of concern now about burning fossil fuels and causing by that the increase in CO₂. But the increases we see may be due to long-term trends, or at least in part, rather than the burning of fossil fuels.

We may find by looking at the past that we can identify what the effects will be of changes in CO₂. So I think these are important programs, but these are very constrained budget times.

Senator McCLURE. I understand they are very constrained, but I also understand the tendency which is expressed in budget terms, to sacrifice long-term goals for short-term goals.

I guess the only reason I would press you further is because obviously these are difficult choices. But is it wise to always focus on the long-term programs and cause them to deteriorate in order to meet other short-term goals? Are we really applying good sound judgment, or are we simply responding to short-term pressures?

Mr. PECK. Well, we certainly tried our best, Mr. Chairman, to balance the needs of all the programs, both long and short term, and some long-term programs did not get cut. Of course, as a professional myself, it grieves me deeply to cut deserving programs, but in a constrained time we ourselves made the judgments of which programs should be cut.

And we are busily engaged right now in looking at the long-term needs and the sort of research programs that are necessary to meet those needs, and so we are preparing a research agenda identifying those needs which must be met, however constrained the budget.

SOURCE FOR REDUCTIONS

Senator McCLURE. I am going to ask you a question that I know you couldn't volunteer, so I am going to give you the opportunity.

You said that "we ourselves determine where the program cuts should come."

Are you telling me that OMB did not determine where the program cuts should be made?

Mr. PECK. By and large, Mr. Chairman, the budget that is proposed for the Survey, warts and all, cuts and increases, was established within the Geological Survey. Now, that is not true of every single program.

The Department, of course, has its own priorities. OMB has a broader vision than even the Department and its own ideas.

Senator McCLURE. That is a generous way to put it. [Laughter.]

OMB looks at other considerations?

Mr. PECK. Yes.

Senator McCLURE. Is that the same thing as broader vision? [Laughter.]

Mr. PECK. Well, they are looking at a \$200 billion deficit.

Senator McCLURE. I understand that, but that says you don't have that many dollars and you make the cuts. That isn't what I am getting at although I understand that.

I am really getting to the question of whether or not your people, your judgments, and your scientific and professional integrity produced the programmatic balance that you have. I am trying to find out whether OMB says for other reasons, "we want to change your priorities." Broader vision includes a whole lot of different things and not just dollars.

Mr. PECK. Certainly, in some programs. I don't think in this particular program OMB had a very different viewpoint than we did. There are some elements of the budget for each division, for example, that involve service to the taxpayer, the National Cartographic Information Center, the programs and resources that are related to providing water data to the public, our Coal Program and our coal data system.

In these programs, the viewpoint of OMB is that those programs can be cut because we can make up the difference by charging people who ask questions about the data or who ask to be provided the data, and we are looking very hard to see whether indeed we can do that.

In some areas, the person who comes in and asks is there a topographic map available for the Yosemite quadrangle, it is very hard to have him put a dime in a turnstile at the door.

Other areas, indeed, perhaps we could obtain additional funds for the Treasury.

Senator McCURE. That also includes reimbursement from other agencies, does it not?

Mr. PECK. Well, I think they are primarily addressing in that case reimbursement from the public at large.

Senator McCURE. OMB can very easily in their broader vision say, yes, the program is important but another agency is involved in it, and we will expect them to provide funding and you coordinate your activities. Is that not correct?

Mr. PECK. That happens, yes.

Senator McCURE. And would it also be fair to say that you exercise some judgment as to what Congress is likely to do to you?

Mr. PECK. It is conceivable that OMB has that in mind.

Senator McCURE. I am talking about you.

Mr. PECK. It is conceivable, of course, Mr. Chairman. [Laughter.]

Senator McCURE. And that maybe you cut some areas which you are pretty confident we will restore?

Mr. PECK. Well, we try pretty hard to play it straight, Mr. Chairman.

Senator McCURE. We do, too, but I don't know how that comes out. [Laughter.]

I appreciate the difficulty of answering that question. Perhaps it was a mischievous question.

Don't the geomagnetism and climate change programs and the research that is done in those programs have significant impact on other geological and geophysical research being conducted by the Survey?

Mr. PECK. Yes, Mr. Chairman. We talked a little bit about the Climate Program and its bearing on the CO₂ and how it bears on the recurrence of floods over the past and on desertification.

The Geomagnetism Program has a very strong basic long-term research component, trying to look at the variations in magnetic field and in terms of actions within the core mantle of the Earth, which also may bear on earthquake recurrence.

USGS SCIENTIFIC REPUTATION

Senator McCURE. One of the reasons why I ask some of these questions is that the USGS has a reputation for being scientists, a reputation for professional integrity that says we will make our studies and we will let the facts speak for themselves and will not try to tailor that to suit OMB or to suit Congress.

Yours is a factual inquiry, and that is a very valuable part of the information. Unless you can maintain that—not only that reputation but that reality—the value of the information we get will begin to suffer because we will see it being tailored to somebody's perception of what is politically or socially acceptable. That, in my opinion, is the death of scientific inquiry.

Mr. PECK. Yes; but, of course, Mr. Chairman, we are not going to tailor our scientific results because of that.

Senator McCLURE. But if you tailor your budgets, it has the same effect.

Mr. PECK. Yes, Mr. Chairman, but we have to live within the overall budget constraints established by Congress and the administration.

Senator McCLURE. Yes, sir.

Mr. PECK. Even though it means the stretching out of programs or the cutting back of programs.

Senator McCLURE. Will the change in the level of research done in these two programs, in fact, impair or disrupt other research efforts?

Mr. PECK. Well, it is certainly going to stretch it out. But let me turn that over to Dr. Hamilton for a more detailed response.

Mr. HAMILTON. The Geomagnetic Program involves not only the operation of observatories to observe the magnetic field but also the analysis of those data to yield information that can go into navigational charts and also in topographic maps.

We certainly will try to maintain the operation of the observatories as best we can, although we will have some problems maintaining backup systems at the reduced level, and we will have to reduce somewhat the analysis, but we would endeavor to try to keep the level of information at a reasonable level.

Senator McCLURE. You mentioned, Dr. Peck, a couple of areas which are politically loaded in today's dialog—the effect of CO₂, the effect of combustion of fossil fuels, and the long-term/short-term effects upon the world's climate.

New policies are being formulated by the Congress on the basis of public concern, and what we need desperately is unbiased scientific information. Whether the politicians use it correctly or not is a separate and different concern.

We will continue to rely on USGS for the professional expertise which uniquely is present there. I don't mean to denigrate the capacity of other institutions, whether they be publicly funded or federally funded or have other institutional support. But these are terribly difficult decisions, and Congress wrestles with the several dimensions of public policy.

One of those dimensions is the scientific/technological base. I hope we can continue to rely on USGS, as we have grown to rely on them, to make those findings and to make the budget allocations on the basis of the scientific requirements and not on the perceived social or political requirements.

Mr. PECK. Well, Mr. Chairman, we are looking very closely at particularly the Climate Program while we go through the fiscal 1986 exercise, sir. There is, indeed, I think, a heightened awareness of what the problems are, and there has also been some remarkable findings from studies, for example, of the ice cores from Greenland.

So we are considering possible budget initiatives in that area.

MINERAL RESOURCE SURVEYS

Senator McCLURE. I have a number of questions that I want to submit for the record, and one of those areas that I wish to explore is the mineral resource surveys. The information that the Congress has continues to be of concern to me.

We oftentimes ignore the information we have, but that is the responsibility and prerogative or the liability of the political process. It is of concern to me that we make many of our decisions regarding land use on the basis of inadequate information.

If I can look for a moment to wilderness mineral surveys and strategic and critical minerals, you have proposed level funding in fiscal year 1985 for both of these programs. I realize that in the face of severe budgetary constraints even level funding indicates that those programs have some priority, in your judgment.

Given the importance of both of these programs, I am convinced that this is the proper approach. I am, however, a little concerned about the work output proposed and the work output actually accomplished under the Wilderness Program.

For fiscal year 1984 you project you would complete 40 BLM wilderness reports, but your 1985 justification has scaled that projection down to 26.

Similarly, you first proposed to have 26 BLM mineral potential reports in preparation, but then reduced that projection to just 12.

For fiscal year 1985 you are projecting to complete 38 such wilderness reports and have 13 such mineral potential reports in preparation.

Can we expect these plans to change during 1985, or will they remain constant?

Mr. PECK. Well, we have been working very closely with both BLM and the Forest Service over this last year or two to identify their needs and capability to meet that need, and in fact, my staff met with the Bureau of Mines and the Forest Service the day before yesterday to examine the implications of decisions in Congress on language in the State wilderness bills.

As an outgrowth of those discussions, we are looking at the budgetary needs for fiscal 1986 and to accommodate both the BLM needs and the Forest Service needs, there may need to be an increase in that program. That is currently under consideration.

Senator McCLURE. Dr. Peck, let me ask you this question. Why were your projections for fiscal year 1984 so far off?

Mr. PECK. With a neat question like that, Mr. Chairman, I will turn it over to the chief geologist.

Mr. HAMILTON. Mr. Chairman, I am not sure the projections are off. The numbers you are referring to indicate the rate of completion of reports and then also the numbers of reports in preparation. So I don't believe that those numbers are necessarily inconsistent.

Mr. PECK. Mr. Chairman, I think basically that the program is on schedule, and I am sure you are aware that we did complete with the Bureau of Mines this last year a study of some 800 Forest Service wilderness areas.

Senator McCLURE. Let me look at your justification for 1984, which shows that wilderness reports completed, 40. Look at your 1985 budget justification, mineral reports to be completed during 1984, 26.

You said you would get 40 done; and now you are saying you will get 26 done. Now, that is a difference.

Mr. PECK. I am afraid, Mr. Chairman, we are going to have to go back to the generators of those numbers and examine closely what the reasons are, and we can supply them for the record.

Senator McCLURE. The reason I ask the question is not just to beat a dead horse. I want to know if you've got a problem, if you're changing the scope of the survey, if you're changing the detail of the survey, and also whether or not this is a pattern which will project itself into the future?

What can we anticipate both in terms of your needs and in terms of output?

Mr. PECK. We will supply that information. I do know, as a generator of reports myself, that it is awfully hard to predict in advance, with a number of somewhat independent geologists, when they are going to complete the reports. It is a little like trying to predict the stock market.

Senator McCLURE. Well, I understand that, but we have analysts in the business to do it. Some make money, and some don't.

Dr. Hamilton, did you have any comment on that, or any further comment at this time?

WILDERNESS STUDY PLANS

Mr. HAMILTON. I would just like to comment on the overall wilderness situation. As you know, we have planned to change from primarily Forest Service wilderness work in the past to BLM work in the future, and the court decision in California changed that somewhat.

We have now laid out a plan, in cooperation with BLM and the Bureau of Mines and Forest Service, projecting completions out to the year 1991. All together, we have 6,700,000 acres of Forest Service land to take care of and 9,650,000 acres of BLM land.

We have a fairly complex schedule worked out to deal with this over the next several years, and in our 1986 budget we are going to address this issue further.

Senator McCLURE. When you refer to the court decision in California, are you referring to the ninth circuit court of appeals decision with respect to the EIS?

Mr. HAMILTON. That is right.

Senator McCLURE. Have you actually changed your work schedule for 1984 as a result of that court decision?

Mr. HAMILTON. Yes, sir, we have. We have agreed to undertake 300,000 acres during 1984 on behalf of the Forest Service, and then we will add another 300,000 acres of Forest Service land in 1985.

Senator McCLURE. You have had a work schedule for wilderness surveys each year, have you not?

Mr. HAMILTON. Those acres were not previously scheduled, but we have agreed to add them to our schedule.

Senator McCLURE. Yes; but have you had such a schedule?

You said you developed one to go through 1990. You have had such a schedule in the past. What you are talking about now is a revision of that schedule?

Mr. HAMILTON. Yes, sir.

Senator McCLURE. Could you provide for the committee records at this point the work schedule that you submitted in conjunction with the 1983 budget, the one with respect to the 1984 budget, and the one that you are now projecting, and explain the differences between the three?

Mr. HAMILTON. Yes, sir.

Senator McCLURE. If you would do that, please.

[The information follows:]

WILDERNESS MINERAL SURVEYS WORKLOAD

In the fiscal year 1984 budget justification, the program output labeled "wilderness reports completed (number of areas)," is a cumulative total, not an annual total. Furthermore, the fiscal year 1985 number (40) is a typographical error. At the time, it should have read (20). However, 6 additional mineral potential reports entered preparation status in late fiscal year 1983, which will mean that reports completed by the end of fiscal year 1984 will equal 20 plus 6 or 26. The fluidity of these numbers is related to changes in scheduling and in wilderness suitability determinations during fiscal year 1983-84. Many additional projects are being started in fiscal year 1984, but they require 3 years to reach report completion stage. For fiscal year 1985, the cumulative total of reports will equal 38, an increase of 12 over fiscal year 1984; the plans should not change significantly now that the program is funded directly within the Geological Survey.

The revised planned workload is as follows:

	1983	1984	Base 1985	Estimate 1985
Forest Service [FS] under field study (millions of acres).....	3.9	0.9 (1.2)	0.0 (0.6)	0.0 (0.6)
FS wilderness reports completed (cumulative number of areas).....	600	785	800	800
FS mineral resource potential reports in preparation (annual).....	185	25	10	10
BLM areas under field survey (million acres).....	1.3	2.5	3.9	3.9
BLM wilderness reports completed (cumulative number of areas).....	14	26	38	38
BLM mineral potential reports in preparation (annual).....	12	12	13	13

¹The workload for the forest is revised by the addition of 0.3 million acres in each of fiscal year 1984 and fiscal year 1985 as the result of a commitment made by Secretary William P. Clark in a letter to Secretary John R. Block, March 22, 1984.

TECHNICAL SUPPORT FOR STATE WILDERNESS BILLS

Mr. FREDERICK. Mr. Chairman, I would just like to add one thing to the overall question regarding the Wilderness Program. One of the things that we have decided to do to aid the Congress in making the decisions that must be made on a State-by-State basis is to make sure that our people are available to your committee to provide as much knowledge as we possibly can, not only in terms of a report but on an individual science basis.

So at this point we have made an arrangement with the Forest Service to provide technical support to them in terms of their preparation for comment on State bills and also to the committee staff for providing that information. So we accompany the Forest Service and also are making arrangements to make sure we are prepared to do that for BLM as well.

Senator McCLURE. I am sure you know I want the record to reflect that the updated mineral assessment that USGS did on central Idaho was of great assistance to me and to my staff as we wrestled with the development of an Idaho wilderness bill.

There are a lot of people who don't want to give either you or me credit for having looked at the information such as that. Nevertheless, it was there, and it is a part of the record and was a valuable addition to the technical, factual basis upon which we tried to make a very difficult decision.

So I appreciate the difficulty. But again, I am concerned, as I have been in the past, that we as a Nation delude ourselves about what we are doing with respect to resource values in basic land management decisions, and sometimes we do it in the absence of knowledge.

What is less acceptable in one sense is when we do it in the presence of knowledge. But at least we ought to have the knowledge, and you know, Dr. Peck, that I have been critical in the past of the nature of mineral surveys. That is a budget and time constraint question.

It is also the nature of the beast. It is harder to tell what is under the surface of the ground than it is to measure what is on top of the ground.

Mr. PECK. That is right.

Senator McCLURE. Along with this fact, is the very poorly understood phenomenon of the mining industry that it is cyclical, that what is an economic prospect one year would be a very foolish prospect in another year.

Mr. PECK. Yes.

In addition, Mr. Chairman, I am sure there are many deposits that have not been found because nobody thought to look for that particular kind of deposit.

Senator McCLURE. Or because the values change suddenly. A new technology develops. Fifty years ago you weren't worried about many of the rare earths that are now absolutely essential in the metallurgy of today.

Mr. PECK. That is right.

Senator McCLURE. I will submit further questions with respect to the Mineral Surveys Program and ask for response to the record.

REGIONAL AQUIFER SYSTEM ANALYSES PROGRAM

Under the Regional Aquifer System Analysis Program, your proposed reduction of \$1,212,000 will, among other things, result in the continued delay of the central Texas carbonate aquifer study.

Last year, GS also proposed to delay this study. Yet the Congress added back \$1 million of the proposed \$1,262,000 fiscal year 1984 reduction. While we assumed this study was to be undertaken, GS apparently had other ideas.

Why do you continue to propose delay of this study?

Mr. PECK. This is partly the result, Mr. Chairman, of a somewhat modified approach to the RASA Program. You recall, that addresses the need to study some 28 or so major aquifers in the country.

We found after clearing out the first several of these studies, and one in particular, the High Plains, for example, the Ogalalla, that it was most desirable after completing the overall study to go into a phase 2 study, looking in much more detail in some subareas of the aquifer where there were either problems and particular needs or pretty strong scientific problems.

So the program has been somewhat recast because several earlier studies have been extended in time and manpower to gain a better understanding.

Now, as far as the particulars on the Texas aquifer—the Edwards limestone, I guess it is, I will turn the microphone over to Mr. Cohen, our chief hydrologist.

Mr. COHEN. I don't think I can add very much to what Dr. Peck said except to emphasize the fact that when the program was initially outlined we did, in fact, plan to cover 28 regional aquifer systems.

If I may paraphrase what I understood your concern to be earlier, Mr. Chairman, that was in part for political reasons, to get complete national coverage.

But, in fact, the central Midwest aquifer—excuse me—the central Texas aquifer is relatively less important than the major aquifer systems, which we have completed and where we are now working on phase 2.

Senator McCLURE. Have you made a decision that it is unnecessary to do the central Texas study?

Mr. COHEN. No, sir; with the level of funding proposed in this budget, we would anticipate that we could initiate the central Texas study and the study in Illinois and Indiana in fiscal year 1986.

Senator McCLURE. What will the studies' total estimated cost be?

Mr. COHEN. I cannot give you the precise figures for each of the individual studies, Mr. Chairman, but they are on the order of \$500,000 per year per study.

Senator McCLURE. And how many years would they typically spend?

Mr. COHEN. They range from 3 to 5 years, Mr. Chairman.

STATE WATER RESOURCE INSTITUTE PROGRAM

Senator McCLURE. Thank you.

At the time your fiscal year 1985 budget request was approved by the administration and went to press, you requested no fiscal year 1985 funding for the State Water Resource Research Institute Program.

We requested a capability statement, and you indicated if additional water resources investigation funds were provided you would allocate funds to the Institute Program.

Can you tell the committee at this time that you do now indeed support funding for those programs if we provide the funds for it?

Mr. PECK. Mr. Chairman, if the will of Congress, as indicated by the vote on the authorization bill, is to provide funds for that program, we would be delighted and enthusiastic to carry it out, and we have done a lot of thinking, meeting with the institute directors and holding our own workshops, bringing in people from all over the Water Resources Division to try to come up with the best way of managing those institutes and the matching grant funds for research that would complement the institutes.

Senator McCLURE. Now, we have a newly authorized funding level of \$10 million.

Can you support that funding level as a reasonable request for the operation of the Institute Program?

Mr. PECK. Yes, sir, Mr. Chairman. That is a reasonable request.

Senator McCLURE. Thank you.

ABSORPTION OF FISCAL YEAR 1984 PAY COSTS

You propose to absorb 100 percent of fiscal year 1984 pay increase supplemental while other agencies are asked to absorb just 50 percent.

Why shouldn't USGS be treated the same as other agencies in this respect?

Mr. PECK. Well, I am delighted you asked that question, Mr. Chairman. The same thought occurred to us. [Laughter.]

Senator McCLURE. So you wouldn't object to being treated like everyone else?

Mr. PECK. No; I would not, Mr. Chairman.

Senator McCLURE. Thank you, Dr. Peck. Thank you very much for your testimony this morning.

ADDITIONAL COMMITTEE QUESTIONS

There will be further questions which we will submit to you for written response for the record.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

PRIMARY QUADRANGLE MAPPING

- Question. You report that national coverage of the United States with standard and provisional edition primary quadrangle maps is projected for 1989. How much money is necessary to complete this job over these next five fiscal years?
- Answer. The Geological Survey estimates that it will cost approximately \$150,000,000 over the next five fiscal years to complete primary map coverage of the United States.
- Question. Would completion of this activity cost substantially less if we were to fund it over a 3-year period ending in fiscal year 1987?
- Answer. The Geological Survey does not estimate any appreciable cost savings through accelerated funding to the Primary Mapping and Revision program. Due to current National Mapping Program commitments and constraints on production capacity, this effort could not be accelerated with the current work force. It is doubtful that a new hiring effort could be successful in the short time available to have a major impact on the production schedule or cost. It is also questionable whether a contracting effort to support accelerated completion could significantly reduce costs or production time.
- Question. Is completion of this activity among the highest mapping priorities of the Survey?
- Answer. Yes. Completion and maintenance of the primary map series has and continues to be one of the highest priorities of the Geological Survey.
- Question. Please list the Survey's mapping activities as identified in the budget request in order of their priority or relative importance to the Survey.
- Answer. The Geological Survey believes that all of its cartographic and geographic activities are high priority and that they provide a valuable service to not only Federal agencies but also State, local, and private users as well. Since all of the Geological Survey's activities are in direct response to identified Federal requirements, it would be difficult to place any one requirement over that of another. The Geological Survey mapping activities for which the greatest number of Federal requirements have been received and the programs which provide direct support to those mapping activities are listed in priority order: Primary Mapping and Revision; Digital Cartography; Modernization of Mapping Technology; Small, Intermediate, and Special Mapping; Earth Resources Observation Systems; Cartographic and Geographic Information; and Receipts for Printing and Distribution.
- Question. The backlog of primary maps in need of revision--either through photorevision, limited revision, or complete revision--continues to stand at about 7,000 maps. Of these, some 4,000 maps are in need of complete revision, which, according to the justification, averages about \$600 per square mile. As new primary maps cost an average of \$440 per square mile, why doesn't the Survey make new maps of these quadrangles rather than make complete revisions?
- Answer. The unit cost of new mapping and complete revision of similar areas is about the same. The disparity in the unit cost of new mapping and complete revision as listed in the Geological Survey's FY 1985 Budget Justification (\$440 and \$600 per square mile respectively) is a reflection of the level of effort required for the respective areas being mapped. All of the remaining new primary mapping is of rural or semi-rural areas, hence the average

unit cost of \$440 per square mile. The existing maps currently in need of complete revision are predominantly of urbanized and metropolitan areas. The higher cost associated with the complete revision of these maps is strictly a function of the complex nature of the cultural features present. If the Geological Survey were to undertake new mapping in areas similar to those in need of complete revision, the unit cost of that mapping would also be about \$600 per square mile.

DIGITAL CARTOGRAPHY

Question. In what is apparently an effort to meet identified Federal cartographic needs, the Survey's digital cartography request for fiscal year 1985 shows a \$3,300,000 or 29 percent increase over the comparable fiscal year 1984 level. How much closer to meeting 1985 Federal needs in a timely manner does this request put the Survey?

Answer. The \$3,300,000 increase for the Digital Cartography program requested for FY 1985 will provide the funding required to mount the concerted effort associated with the joint Geological Survey/Bureau of the Census project to produce hydrographic and transportation digital cartographic data categories at the 1:100,000 scale. This production effort is the first step in the development of a 1:100,000-scale digital cartographic data base which will later include the Public Land Survey System, boundary, and topographic data categories. The data produced will be used by the Bureau of the Census, which requires complete hydrographic and transportation data category coverage of the conterminous United States by mid-FY 1987 for use in the taking of the 1990 Decennial Census, and will be available beginning in FY 1985 for other Federal and State agencies for multipurpose use. To date, the Federal Highway Administration, Nuclear Regulatory Commission, Federal Emergency Management Agency, and Defense Mapping Agency have shown interest in the 1:100,000-scale data and are planning to acquire some of this data from the Geological Survey for specific applications.

Question. Specifically, what more would you do if more funds were available?

Answer. If additional funds were available the Geological Survey would increase production of 1:100,000-scale digital cartographic data in order to complete the data base early in FY 1987. In addition, the Geological Survey would increase production of 1:24,000-scale digital cartographic data in response to the identified requirements from Federal and State agencies for use in land management and resource applications.

Question. How much of these identified Federal needs for cartographic products are provided through reimbursements from other agencies?

Answer. In FY 1983, the Geological Survey received \$365,000 in reimbursements from Federal and State agencies for production of digital cartographic data. In FY 1984, the Geological Survey estimates reimbursements to be about \$1,700,000.

Question. What is the total reimbursement made to the Survey specifically for such cartographic products?

Answer. In FY 1983, the Geological Survey received \$715,000 from production reimbursement of digital cartographic data. In FY 1984, the Geological Survey estimates it will receive a total of about \$2,000,000. Total reimbursement for non-digital cartographic products and services is estimated to be about \$19.0 million in FY 1984.

Question. One of your primary activities for FY 1984 and FY 1985 is the digitalization of selected categories from the 1:100,000-scale

quadrangle series in support of the 1990 Decennial Census. Can you be more specific in exactly what you will do in this regard? What are the 1984 and 1985 costs associated with this effort?

Answer. The Geological Survey is creating a 1:100,000-scale digital cartographic data base. This data base will eventually contain all of the features shown on the published 1:100,000-scale maps. Initially, to satisfy the Bureau of the Census' needs for the 1990 Decennial Census, digital production is being focused on providing complete conterminous United States coverage of transportation features (roads, railroads, powerlines, pipelines) and hydrographic features (streams, rivers, water bodies). Estimated production costs funded by the Digital Cartography Program for FY 1984 and FY 1985 are \$4.3 million and \$7.8 million respectively.

To provide base maps for the digitizing effort described above, the Geological Survey began in FY 1984 and will continue in FY 1985, to shift production in the Intermediate-Scale Mapping program element from 1:100,000-scale topographic editions to primarily the production of 1:100,000-scale planimetric bases. This shift will provide the bases needed to generate digital cartographic data. This mapping effort is expected to cost about \$5.4 million in FY 1984 and about \$5.6 million in FY 1985.

Question. Is this activity in direct support of census work of the Department of Commerce?

Answer. Yes, it does directly support census work and at the same time meets the need for the production of a 1:100,000-scale digital cartographic data base. This production effort is aimed at building a multipurpose digital cartographic data base which will be applicable to all requesting Federal, State, local, and private users. Federal agencies such as the Nuclear Regulatory Commission, Federal Emergency Management Agency, Federal Highway Administration, and Defense Mapping Agency are planning to acquire this data for application to their specific programs.

The Geological Survey is expediting the production of this data in response to the Bureau of the Census requirement to have coverage of the hydrography and transportation categories for the conterminous United States by mid-FY 1987. The Bureau of the Census and Geological Survey signed an MOU on December 8, 1983, outlining a cooperative agreement for producing this data. If the Geological Survey were not to undertake this effort the Bureau of the Census would produce the digital cartographic data it requires unilaterally to single-purpose standards and specifications, thus the Federal Government would lose the opportunity to develop this useful, multipurpose data base.

Question. I notice on page SE-16 of the justification that the Department of Commerce is expected to reimburse USGS only \$40,000 for all mapping work conducted in FY 1985. Why isn't Commerce reimbursing more of the actual costs of this activity.

Answer. The Department of Commerce plans to reimburse the Geological Survey \$2.0 million in FY 1985. These funds are provided for in the Geological Survey/Bureau of the Census MOU and are expected to be transferred to the Geological Survey to expedite the production of 1:100,000-scale digital cartographic data. In addition, the Bureau of the Census is contributing to the effort by encoding some of the data and is providing boundary and demographic data for inclusion in the 1:100,000-scale digital cartographic data base.

FEDERAL MINERAL LAND INFORMATION

Question. Is the development of the Federal Mineral Land Information System absolutely dependent on the development of data links to BLM's Automated Land and Mineral Records System and other similar agency data bases?

Answer. The Federal Mineral Land Information System is not absolutely dependent upon the development of data links to BLM's ALMRS. The Federal Mineral Land Information System depends on access to existing data on Federal surface ownership, mineral rights, and restrictions to mineral development compiled and held by BLM and other land management agencies. BLM's ALMRS project, if developed to the fullest extent planned, would greatly facilitate data entry into FMLIS.

CARTOGRAPHIC AND GEOGRAPHIC INFORMATION

Question. Under Cartographic and Geographic Information, you have proposed an FY 1985 budget of \$2,054,000. This represents a 39 percent reduction from the FY 1985 base level, however, your justification states that this \$1,585,000 reduction will be partially offset by implementing a system of service charges to cover distribution costs for data from the various information data bases funded under this program. Is this service charge system already in place?

Answer. The Geological Survey has increased the price of maps to be consistent with the same objective and does charge handling fees where practical.

Question. If not, when will it be?

Answer. Product prices were raised for topographic maps in January 1984 and will be raised again in January 1985 while the price of map separates was increased on April 1 of this year. Price changes for other products are under consideration as well as the building in of handling charges to the pricing structure.

Question. How much of the proposed FY 1985 reduction is expected to be offset by service charge collection?

Answer. Price changes and handling charges should account for approximately \$400,000 of the reduction.

Question. Is it possible to collect more than this? If so, what does USGS or Congress need to do to make such larger collections possible?

Answer. The Geological Survey projects that further price increases, at this time, above the ones being proposed would be a disincentive for the collection of additional revenues.

Question. What is the status of the development of each of these data systems?

Answer. FMLIS and ALMRS are still in the development phase.

Question. Does USGS expect to pay the full cost of developing the data links with these other agencies or are some of the costs reimbursed?

Answer. The Geological Survey would develop the basic framework and would bear the costs of establishing data links, except in those cases where the supplying agency receives data back from FMLIS. In those cases each agency will fund the development in relation to its use.

Question. What amount from each agency is reimbursed?

Answer. Since there are no fully automated data systems available for linkage at this time, there are no reimbursements; however, we do expect joint efforts by other Bureaus as their data systems achieve automation.

LAND-USE AND LAND-COVER MAPPING

Question. On page M-21 of the justification, you state that "The Land-Use and Land-Cover Mapping Program provides the only systematic inventory of land-use and land-cover data that is nationwide in scope and features a uniform classification system portrayed at standardized scales."

As this program has proved so valuable to so many agencies, and as the graphic coverage of the conterminous United States could easily be completed during fiscal year 1985, for what specific reasons have you proposed a drastic 52 percent reduction of \$1,800,000 from the FY 1984 appropriated level?

Answer. The Geological Survey proposed the \$1.8 million reduction to the Land-Use and Land-Cover program because it would not impact the FY 1984 production level of digitized land-use and land-cover data and would only defer completion of full conterminous United States graphic coverage into FY 1986. If the FY 1984 level of funding were available in FY 1985, graphic coverage of the conterminous United States could be completed in FY 1985.

Question. If Congress approves your budget request for this program, what specific activities will not be performed, which agencies will be most affected, and which areas of the country would remain to receive land-use and land-cover graphic coverage?

Answer. If the \$1.8 million reduction to the Land-Use and Land-Cover program is approved, production of land-use and land-cover data in graphic form will be reduced. Production of digitized land-use and land-cover data will remain at the FY 1984 level. The Geological Survey projects no major impact from the deferral of completion of graphic coverage into FY 1986. The largest areas of the country for which graphic coverage will be deferred include: eastern Idaho-western Montana; southcentral New Mexico, eastern North Dakota-South Dakota, southwest Texas, and southcentral New York.

RECEIPTS FOR PRINTING AND DISTRIBUTION

Question. Last year, in the FY 1984 Interior Appropriations bill, USGS was authorized to retain receipts from the sale of all published maps, rather than deposit them in the General Funds of the Treasury. This action was taken primarily to provide a continuing and timely source of funds for printing and distributing maps developed by the Survey. To make this authorization workable, we then provided the requested level of \$8,500,000.

In developing the FY 1985 budget request, the Survey determined in initial calculations that a similar amount of \$8,500,000 was again necessary. The Department agreed with USGS, yet when your budget request was sent to OMB for approval, this number was increased by \$1,000,000 to a total of \$9,500,000. How do you explain this change? Please provide a detailed explanation, including total sales and receipt figures, which justify this increase.

Answer. On September 22, 1983, in response to an OMB request, the Geological Survey submitted a report on receipt enhancements. In this report, the Geological Survey estimated that increasing the price of map products would increase revenues in FY 1985 from about \$8.1 million to about \$9.4 million. Subsequent to the OMB review of the FY 1985 Budget Estimates, the Geological Survey implemented a price increase for map products which went into

effect January 1, 1984. The revenues from this increase were estimated to be \$8.5 million in FY 1984, the amount used for the FY 1985 Budget Estimate. As a result of its analysis, the OMB directed the Geological Survey to further increase the price of map products. This increase, based upon the projections in the report, would yield revenues of about \$9.4 million. This figure was rounded to \$9.5 million. This second price increase is planned to take effect January 1, 1985. The Geological Survey now estimates that FY 1985 receipts from the sale of maps to the public will be about \$9.0 million.

SLAR

Question. What is the current status of the Survey's Side-Looking Airborne Radar (SLAR) program?

Answer. The acquisition of SLAR data for 235,000 square miles in the Appalachian region resulting from the FY 1983 contract award began in late April 1984 and will be completed by the end of May. These data are expected to be entered into the public domain in the fall of CY 1984. Award for the FY 1984 SLAR acquisition contract is planned for September 1984, with data collection to begin shortly thereafter. The Survey's SLAR information and public awareness effort is progressing; a number of reports and papers have been presented at scientific conferences and symposia, a four panel display showing SLAR coverage and application is on tour of major symposia, the SLAR order form and fact sheet are currently being sent to prospective customers of remote sensing data; a direct mailing campaign using the order form and fact sheet is planned for late May or early June 1984 to approximately 30,000 members of the American Association of Petroleum Geologists and the Association of American Geographers; and the production of selected SLAR mosaics for public distribution is expected to result in increased demand for SLAR data as managers, scientists, and students become more aware of these data.

Question. For what specifically have funds provided in fiscal year 1984 and previous years for SLAR been expended?

Answer. The funding by year and the expenditure of these monies are shown below:

1980 and 1981 - \$2.00 million - Approximately 75,000 square miles of SLAR data were acquired in the Brooks Range and the Alaskan Peninsula.

1982 - \$2.88 million - Approximately 75,000 square miles of SLAR data were acquired. These data included coverage of the Aleutian Arc, parts of the Appalachian region and New England, and the Tonapah, Nevada, area.

1983 - \$3.00 million - Approximately 235,000 square miles of SLAR data are being acquired in the Appalachian region. Data collection is expected to be completed by the end of May 1984.

1984 - \$1.50 million - It is anticipated that a contract for data acquisition will be awarded in September 1984 for more than 100,000 square miles of SLAR data principally in the West and Midwest.

In addition, since FY 1980, more than 50 studies addressing the geologic, hydrologic, cartographic, and engineering applications of this technology have been performed. The Geological Survey is also involved in a SLAR information and public awareness effort to communicate both the availability and utility of SLAR to managers, scientists, and students in the earth sciences.

Question. Does USGS continue to believe it should not spend money to collect SLAR data? If not, what exactly is your position?

Answer. The Geological Survey feels that although SLAR data has proven useful for earth-science applications by both the public and private sector, the use of Geological Survey appropriated funds to acquire and enter these data into the public domain is not appropriate at this time, since existing SLAR data can be acquired from private vendors for approximately 70 percent of the conterminous United States and Alaska.

Question. How and where does SLAR fit into the total mapping program?

Answer. Because of inherent geometric distortions, SLAR imagery cannot be used for the preparation of conventional map products. However, since SLAR provides its own electromagnetic energy, it is useful for acquiring imagery in areas of perpetual cloud cover. For example, the Survey is currently publishing SLAR image maps of the Aleutian Arc to aid government and private sector interests in this area of pending OCS lease sales.

Question. If Congress does provide funds for SLAR, where and for what would USGS spend these funds?

Answer. The Geological Survey would use approximately 75 percent of these funds for SLAR data acquisition of areas identified by Geological Survey scientists and State Geologists. The remainder of the funds would be used to support the SLAR information and public awareness effort, and studies addressing the geologic, hydrologic, cartographic, and engineering applications of this technology.

EARTHQUAKE HAZARDS REDUCTION PROGRAM

Question. As you are of course aware, Central Idaho was the scene of a fairly large earthquake last year which caught many of us off-guard. In many areas of this country, including in Idaho, we often tend to disregard or even forget the very real potential for occasional earthquakes. We in fact tend to look to USGS to find ways of accurately predicting these events so that damages and, more importantly, loss of life, can be avoided. I cannot help but believe that the reductions you have proposed for this program can only serve to further delay what we all hope can someday soon be life saving early earthquake prediction. Would you care to comment?

Answer. The relatively small reduction in the Earthquake Hazards Reduction Program allows the Department to maintain an overall balanced earthquake research program that supports continued progress toward the objective of earthquake prediction.

Question. Specifically regarding the Idaho situation, what actions did USGS take following the quake, what will it do in terms of monitoring in the months to come, and how much does it expect to spend in FY 1984 and 1985 in these activities?

Answer. The USGS responded quickly to the developing aftershock sequence, installing networks of portable, high-gain seismographs and strong-motion instruments around the earthquake zone beginning one day after the mainshock. The networks recorded more than several thousand aftershocks, providing important data on the origin of the earthquake and the nature of strong ground motion in the Rocky Mountain interior. (The portable networks have subsequently been removed.) Field teams were dispatched to document the tectonic surface faulting that accompanied the main event, and to locate secondary ground failures, including landslides and liquefaction, generated by the earthquake.

The Geological Survey in 1975 in USGS Open-File Report 75-278 had identified the fault that would generate the 1984 Idaho earthquake as potentially active. In 1982, the USGS calculated that the fault could generate an earthquake of magnitude 7.

The USGS is monitoring earthquake activity in Idaho with U.S. stations in the World-Wide Standardized Seismograph Network and the Global Digital Seismograph Network, and through support of the Southern Intermountain regional seismographic network operated by the University of Utah.

The USGS has spent approximately \$75,000 (exclusive of salaries) in its response to the 1983 Idaho earthquake. The USGS anticipates spending about \$50,000 in fiscal year 1984 and \$50,000 in fiscal year 1985 on earthquake monitoring in Idaho.

In the fall of 1984 the USGS will convene a scientific workshop on the Borah Peak earthquake to review for scientists, public officials, and the public in general the lessons learned from the earthquake, the general earthquake hazard situation in Idaho, and plans for further work. The results of this workshop will be published in a USGS Professional Paper.

VOLCANO HAZARDS PROGRAM

- Question. The list of program reductions and delays resulting from your requested volcano hazard budget decrease of \$1,500,000 reads much the same as those for earthquake hazards. Why should we not believe that these reductions in the volcano program will be detrimental to our ability to monitor and predict volcano activity?
- Answer. The reduction of \$1,500,000 would allow a balanced program of work for monitoring and predicting volcanic activity to continue during a period of overall budget constraints while funding the highest priority projects.
- Question. At a time when this country is experiencing increased volcanic activity, shouldn't we put ourselves in a better position to study this activity? Won't this study invariably cost a little more, not less?
- Answer. An emergency response proposal has been formulated to accomplish two objectives: 1) restore and upgrade monitoring capability, and 2) evaluate the aftermath of the Hawaiian eruptions to establish new baseline information for hazards assessments prior to the next eruptions. Options for funding these unbudgeted expenses are under review.
- Question. What is the current situation with respect to the stability of the debris dam at Spirit Lake? What is now being done to resolve the potentially hazardous problem of lake overflow? What will be done in the future by you and/or the Corps of Engineers (or others) to resolve this situation?
- Answer. The debris dam at Spirit Lake is relatively stable at this time. The Corps of Engineers continues to operate a pumping plant which has prevented the lake water from rising to unacceptable levels. Minimal erosion has occurred on the debris-dam surface this winter and spring due to the absence of major storm events.

For a permanent solution to the Spirit Lake problem, the Corps of Engineers has recommended proceeding with construction of a tunnel through rock to the west which will drain the lake into the Toutle River by way of South Coldwater Creek. The tunnel, with a gravity outlet and control works, will lower the current

water elevation to a safe level and will have the flexibility of lowering future lake levels an additional 40 feet. The Corps of Engineers is proceeding with plans for this tunnel and expects that construction could begin in July 1984 and be completed in the spring of 1985.

Upon completion of the tunneling effort, it is envisioned that the U.S. Geological Survey might be able to operate the flood hazard warning network at Spirit Lake at a somewhat scaled down level, commensurate with the reduced hazard. We will continue to monitor the headwater erosion in the debris dam in the vicinity of Spirit Lake and intensify our observations at Coldwater Lake to keep aware of the consequences of the increased discharge into and out of that lake as a result of diverting the Spirit Lake water.

GROUND FAILURE PROGRAM

Question. Moving briefly to Ground Failure research, the Geological Survey last year worked with the State of Utah to identify and monitor potential landslide activity resulting from heavier than normal mountain snowfall. It appears that this year's snowfall may be as bad or worse and that many landslides may again occur. What did the Survey learn in their research effort last year that you feel will be helpful in monitoring and prediction activities this year? How much money did USGS spend on this Utah effort in fiscal year 1983 and 1984, and how much is expected to be spent in 1985?

Answer. In the spring of 1983 the Geological Survey responded to emergency requests from the State of Utah (Utah Geological and Mineral Survey) to provide immediate technical assistance in the search for and identification of potentially damaging landslides that were initiated by rapid melting of the then record 1982-83 mountain snowpack. (Melting snow caused numerous damaging debris flows and large slides in several areas of Utah.) A team of USGS landslide experts assisted the Utah Geological and Mineral Survey and State emergency officials in April-June 1983. In response to an assignment by the Federal Emergency Management Agency (FEMA) and the UGMS, a team of USGS scientists, working with a flood control engineer detailed from the Los Angeles Flood Control District, evaluated the further potential for debris flows from the Wasatch Front slopes between Salt Lake City and Willard, Utah. The conclusions of the study have been used by the State and local communities in subsequent decisions regarding land use, and for the location and design of debris basins to mitigate against the potential of future debris flow and debris flood damage. Three stream canyons, rated as having "very high" debris-flow potential in the USGS report last year, have experienced debris flows this season. The April 1984 debris flow in Rudd Canyon was successfully contained by a debris basin constructed according to design parameters suggested by the USGS report.

Observations of Utah debris flows and other landslides in 1983 and 1984 demonstrated, again, that accurate forecasting of the severity of the landslide hazard requires more comprehensive geologic-hydrologic information than is generally available for Utah. The development of instrument systems to detect and measure changes in shallow ground water levels, as well as changing rates of deformation in active landslide masses, would contribute greatly to the capability of predictive models to identify where activity is likely to occur, predict the debris volumes that are likely to be involved, and estimate the speed with which the landslide masses can be expected to move. Basic research to develop and test such instrumentation would be a Geological Survey responsibility. Costs to purchase, install

and operate such instrument systems after the basic research is complete should be paid for by the units of government that would make operational use of the information.

The USGS spent approximately \$252,000 on the Utah effort in fiscal year 1983. Additional costs of the 1983 emergency response were paid for by the Federal Emergency Management Agency to evaluate the further potential for debris flows from the Wasatch Front slopes.

The USGS anticipates that it will spend approximately \$160,000 in fiscal 1984 on current Utah landslide studies and emergency response. The 1984 landslide activity is rapidly approaching emergency proportions. In April 1984, State Geologist Genevieve Atwood (Utah Geological and Mineral Survey) contacted the USGS, requesting emergency technical assistance to respond to the landslide emergency. The USGS has assigned a team of internationally recognized authorities in landslide studies to Utah to assist in the 1984 emergency landslide response.

The USGS plans to spend approximately \$150,000 in Utah landslide research during fiscal year 1985.

LAND RESOURCE STUDIES

- Question. For fiscal year 1985, you have moved the Reactor Hazards Research program from Geologic Hazards Surveys to Land Resource Surveys. At the same time, you have proposed a reduction of some \$1,443,000 from the 1985 base level for work associated with the siting of nuclear reactor facilities. Will this reduction result in a delay or disruption of planning, construction, or testing of any currently proposed or ongoing nuclear facility?
- Answer. No. The planned reduction should not delay, disrupt planning, construction, or testing of any currently proposed or ongoing nuclear facility. The reduction in reactor hazards research is largely in the area of regional studies that are strongly dependent on geologic mapping. It is anticipated that new work carried out under the Federal/State geologic mapping cooperative would fill the void caused by the reactor hazards reduction.
- Question. Will this reduction result in any disruption of the Survey's advisory activities to the Nuclear Regulatory Commission?
- Answer. It will be possible to curtail selected projects in reactor hazards research, because there have been no new applications to construct nuclear facilities in 6 years. Other on-going reactor hazards research projects, however, are necessary and will continue to identify potential hazards on a regional scale in order to allow the USGS to respond to general and specific requests from the NRC regarding licensing for both recently completed reactor sites and developing plans for future construction. Research in the earth sciences, including geologic hazards studies related to nuclear reactor siting, is critically dependent on geologic maps. Increased production of geologic maps under the Federal/State geologic mapping cooperative program should increase this primary data source used to advise the NRC.
- Question. According to your justification, you are proposing to partially offset the Reactor Hazard reduction with a \$1,000,000 increase to meet the demand for new Federal/State cooperative geologic and geophysical maps. What is the demand in this area and why has it apparently increased in recent months?
- Answer. The demand for general purpose geologic maps has been increasing for a much longer period than the past few months. In the last

decade, production of high-quality general purpose geologic maps has decreased over 80 percent, and the incompleteness and progressive obsolescence of this fundamental data base increasingly impacts all areas of geologic research both within and outside USGS activities. Preliminary evaluation of responses to a questionnaire on the needs and priorities for geologic mapping in the United States, that was developed and sent out by the National Research Council, indicates that medium-scale general purpose geologic maps are more in demand in segments of the earth science community (consisting primarily of industry, State geologists, State, county, and local land-use planners, engineers, and academia) than any other geoscience product, and are anticipated to remain so for years to come. Geologic maps are the starting point for most earth science research, and form the most comprehensive source of geologic data throughout the course of most studies. The combined USGS and State funds of \$2,000,000 in FY 1985 will initiate a multiyear program sufficient to address a substantial portion of the highest priority demands of State geologists over the next decade. The Federal/State geologic mapping cooperative program represents the only effort in the USGS that is directed solely at producing general purpose geologic maps. The program combines the overlapping, but different data bases of the USGS and State geological surveys, and also provides for avoidance of duplicated efforts. Geologic mapping done under the program should contribute towards augmenting and modernizing the nation's geologic map data base.

Question. How many such cooperative surveys do you expect to accomplish during FY 1984 and 1985 and with whom do you expect to sign co-op agreements for such surveys?

Answer. During FY 1984, formal geologic mapping and geophysical mapping cooperatives existed only as part of several programs with Alaska (several projects), Utah, Missouri, and Ohio. We expect to sign about 15 new agreements as part of the Federal/State cooperative geologic mapping component (COGEOMAP) of the Geologic Framework Program for FY 1985. The deadline for pre-proposals is June 1 and we have held substantive discussions with only a few State geological surveys, so it is premature to indicate the probable cooperators. Strong expressions of interest in participating in COGEOMAP have been received in the form of written proposals from 25 states and a New England consortium. Final proposals are due on August 15 following substantial discussions between USGS and State survey staffs. A USGS selection panel will select the cooperative projects for FY 1985 prior to September 1, 1984 and formal agreements will be signed before October 1.

The following States have submitted written proposals or indicated interest in participation: Nebraska, Idaho, Oregon, Utah, Nevada, Arizona, New Mexico, Maine, Vermont, New England consortium, New Jersey, Pennsylvania, Maryland, Virginia, West Virginia, North Carolina, South Carolina, Alabama, Michigan, Illinois, Wisconsin, Minnesota, Iowa, Missouri, Oklahoma, Arkansas.

STRATEGIC AND CRITICAL MINERALS PROGRAM INTERNATIONAL STRATEGIC MINERALS INVENTORY (ISMI)

Question. With regard to the Strategic and Critical Minerals Program you recently completed a pilot phase of a multi-country agreement to develop a data base for the world's resources of phosphate, nickel, chromium, and manganese. Please describe the details of this cooperative agreement.

Answer. The International Strategic Minerals Inventory (ISMI) cooperative project is based on the premise that, for many mineral commodities, a large proportion of current and near-future production (as much as 90-95 percent) is from a relatively few major deposits,

and that good information on production, reserves, and identified resources on those major deposits will improve the basis for sound mineral-policy decisions. It is also based on the realization that many industrialized countries maintain extensive global commodity files, and that a cooperative program between those countries would avoid a great deal of duplication of effort and would greatly improve the quality and amount of information available to each.

The goals of ISMI are to gather, analyze, and present information on major deposits of selected commodities through a cooperative program among earth-science and mineral-resource agencies of the participating countries: the Bureau of Mineral Resources, Geology and Geophysics (BMR)--Australia; the Geological Survey (GSC) and the Mineral Policy Sector (MPS)--Canada; the Bundesanstalt fur Geowissenschaften und Rohstoffe (BGR)--Federal Republic of Germany; the Geological Survey (GSSA) and the Minerals Bureau (MBSA)--South Africa; the British Geological Survey (BGS)--United Kingdom; the Bureau of Mines (USBM) and the Geological Survey (USGS)--United States.

At the organizing meeting in Reston, Virginia, in November 1981, (which was attended by representatives from participating agencies of the United States, Canada, and Germany, and at which South Africa was represented by an observer), it was agreed that the first phase of the project should be a pilot study of four commodities--chromium, manganese, nickel, and phosphate. Information would be exchanged among participants by means of standardized deposit-record forms. For each commodity a lead agency was designated as having prime responsibility for identifying a list of major deposits, for compilation of data on the deposit record forms, and for preparation of a commodity summary report. The USGS was designated as the lead agency for chromium, nickel, and manganese; the BGR was lead agency for phosphate. As deposit records were completed by the lead compiler, they were circulated for review and comment. The USGS assumed the responsibility of final editing, retyping, and distribution of the records to participating agencies.

Question. What is the current status of this cooperative agreement?

Answer. Three meetings of the ISMI Working Group, which consists of representatives from the participating agencies, have been held since the organizing meeting: in Hannover, Germany (Oct. 82); Ottawa, Canada (May 83); and Pretoria, South Africa (Nov. 83). Another is planned for September 1984 in Perth, Australia. Compilation of some 320 deposit records for chromium, nickel, manganese, and phosphate has been completed; and editing, revision, retyping, and distribution of the records for chromium, nickel, and manganese have been completed. The summary commodity report for manganese has been published as U.S. Geological Survey Circular 930-A, that for chromium has been approved for publication as Circular 930-B, the one for phosphate has been critically reviewed and revised and is ready for final author approval, and the report for nickel is in preparation.

At the ISMI Working Group meeting in Pretoria in November 1983, six commodities were selected for the second phase of the program cobalt, graphite, vanadium, titanium, tungsten, and the platinum group elements (PGE). Agencies from each participating country took the lead role for one commodity--the USGS took the PGEs. Deposit lists for cobalt, vanadium, and the PGEs have been circulated, and compilation of record forms is under way.

Question. What is the potential for long-term approval of the agreement?

Answer. At the organizational meeting of ISMI at Reston in November 1981, there was considerable scepticism amongst participants that such a

cooperative program could successfully serve the diverse needs of the participating countries and agencies. By carefully constricting the role of the program to providing the data upon which each country could carry out its own policy analysis, and excluding such policy analysis from the charter of the ISMI Working Group itself, those early doubts appear to have been allayed, and the participants at the Working Group meeting in Pretoria in November 1983 enthusiastically endorsed continuation of the cooperative program. It appears that the program will continue with coverage of some additional commodities in addition to the 10 already completed or under way, and may eventually be expanded to include coverage of undiscovered resources.

Question. What can this agreement ultimately mean to the United States?

Answer. The information thus accumulated, and its careful analysis, will provide information on secure sources of foreign supplies of strategic minerals, critical data upon which to base sound mineral policy, and will contribute basic scientific data that will help in the exploration for domestic mineral deposits.

ALASKA MINERAL RESOURCE ASSESSMENT PROGRAM (AMRAP)

Question. Among the many requirements imposed by the Alaska National Interest Lands Conservation Act of 1980, is that of Section 1001, which mandates that the GS assess the mineral potential of Federal lands north of 68 degrees north latitude, east of the National Petroleum Reserve, and west of the Arctic National Wildlife Refuge, and participate in a review of the wilderness characteristics of the area. This work is to be completed by 1988. Please briefly inform the Committee of the work you have done so far in this regard and outline your specific plans to complete this work prior to 1988.

Answer. AMRAP is assessing the mineral resource potential of the so-called Central Arctic Management Area (CAMA) north of latitude 68 degrees north through three separate program elements: (1) an appraisal of metallic, industrial mineral, and energy commodities in two key 1:250,000-scale quadrangles in the north-central Brooks Range wherein geologic framework information may be acquired most readily; (2) a regional appraisal of oil and gas potential in CAMA north of the Brooks Range, (a) by studying petroleum source and reservoir potential of Cretaceous rocks in the surface and shallow subsurface (these rocks produce in the Barrow and Umiat areas), (b) by studying physical characteristics of pre-Cretaceous outcrops in the Brooks Range and employment of seismic stratigraphy to determine their structural characteristics in the deeper subsurface to the north (these rocks produce in the Prudhoe Bay area); and (c) by acquiring organic geochemical information and creating an interactive geochemical data base for analyzed samples derived from government, academic, and private sources; and (3) a regional appraisal of coal resources throughout the CAMA, including determination of quantity and quality.

All three program elements are functioning at paces that will complete most fieldwork (i.e., the acquisition of new geological, geochemical, and geophysical information) by 9/85, and all fieldwork by 9/86. Interim reports for each element are scheduled for completion no later than 6/87; some will be ready sooner. By 9/86, a task force of participants from all three program elements will be convened with the assignment to produce an integrated regional assessment of energy and mineral resource potential for the CAMA. This document will be produced no later than 12/87, thereby allowing at least a full year for review of the wilderness suitability of the region and for preparation of final recommendations.

Question. Do you anticipate any problems in completing this work? Are you achieving good cooperation in this effort by other Federal agencies, such as the Fish and Wildlife Service?

Answer. Final reports will have to address the problems of uneven density of information and marginal quality of some contracted geophysical data--problems that should not affect the completion of the work, however. Interaction with other Federal agencies has been limited chiefly to questions of access posed by Fish and Wildlife Service enforcement of the Endangered Species Act. The USGS does not anticipate any problems as cooperation will intensify as the deadline for reports and review nears.

EVOLUTION OF SEDIMENTARY BASINS

Question. Under Energy Geologic Surveys, you have proposed a new effort titled Evolution of Sedimentary Basins, which is designed to provide a better coordinated approach to studies of the evolution of sedimentary basins. Such studies will provide the basic scientific understanding required for the assessment of multiple energy and mineral resources within a single basin. In the creation of this new activity, funds and personnel have been redirected from the oil and gas and coal investigations programs. For the record, please provide a detailed list of the funds and personnel redirected from all programs and provide cost and personnel estimates for each individual project or activity proposed for work in fiscal year 1985.

Answer. The Evolution of Sedimentary Basins Program that is proposed in the FY 1985 President's Budget is a consolidation of basic research activities that had previously been funded under the Oil and Gas Programs and Coal rather than the creation of a new activity at the expense of ongoing programs. In the consolidation of those activities, \$3,093,000 and 74 FTE were shifted from the Coal Investigations Program and \$2,063K and 44 FTE shifted from the Onshore Oil and Gas Investigations Program. Investigations that will be funded with the \$4,656,000 are focused in the Anadarko, Appalachian, Powder River, and Alaskan North Slope Basins. Specific studies include:

	<u>\$</u>	<u>FTE</u>
Regional geologic framework surveys	2,500,000	40
Paleoenvironmental surveys	1,005,000	16
Geochemistry and mineralogy surveys	860,000	14
Paleohydrology surveys	291,000	4

ONSHORE OIL AND GAS INVESTIGATIONS

Question. For fiscal year 1985, you have proposed an onshore oil and gas program totaling \$4,743,000, a reduction of \$1,800,000 and 44 full-time equivalent positions from the FY1984 level. Direct results of this reduction include development of 700 fewer line miles of remote sensing data; the conduct of 10 fewer topical research studies, processing of 1,100 fewer line miles of seismic data; and 15 fewer stratigraphic syntheses.

While this country has certainly made great strides in its development of onshore oil and gas resources, it frankly makes little sense to me to make such drastic program reductions at this time. Wouldn't you agree that this country is still not at the level of energy independence that we can enjoy a reduction such as this? If not, how can you justify this reduction?

Answer. Certainly the Nation continues to need research in the field of oil and gas resources. However, the "reduction" in USGS oil and gas research is only apparent--actually, that amount of funding (less a \$200,000 requested cut for FY 1985) is being shifted into the new line item for Evolution of Sedimentary Basins which is a consolidation of basic research activities that support commodity investigations. In that program, studies of petroleum-rich basins like the North Slope, Anadarko, San Juan, Uinta-Piceance will be strengthened. A basic understanding of the geology of these basins and the geologic processes that controlled the energy and mineral deposits in them is expected to enhance our knowledge of resource occurrence. It is really a matter of focus, emphasis, and approach to the critical problems of energy geology, hence the change involving the deletion of work items mentioned in the above question, and the focus on integrated basin studies instead.

URANIUM/THORIUM INVESTIGATIONS

Question. Like oil and gas investigations, you have proposed a reduction of \$1,000,000 and 8 full-time equivalent positions for Uranium/Thorium Investigations. In your justification, you indicate that this redirection will result in less resource information developed by the Survey, but that industry can still be the prime supplier of such necessary resource information. Is industry in fact in a position to conduct the proper investigations - including on Federal lands - and relay appropriate information for private sector development of this resource? Is it reasonable to expect that industry will relay all information?

Answer. Due to international marketing conditions, exploratory activity in private industry has not been as high as expected. However, with regard to uranium resources, the Secretarial level Memorandum of Understanding (MOU) that transferred the National Uranium Resource Evaluation (NURE) data base from DOE to the Survey specified that a separate MOU would be concluded wherein the Survey would be required to provide the Energy Information Administration with updated information on the Nation's uranium resources. That MOU is currently being negotiated, but the Survey has already agreed, within USGS appropriated funds, to study four deposits representing newly recognized important resource potential, in addition to providing updates regarding the resource potential of "conventional" uranium deposits. This strategy is designed to ensure that new information continues to be developed during periods when private industry may not have sufficient economic incentive to explore for uranium.

WORLD ENERGY RESOURCE ASSESSMENTS

Question. For World Energy Resource Assessments, what has been the history of reimbursements to USGS by various agencies for which GS provided investigations and/or assessments of foreign resources? Will other agencies continue to use USGS expertise in this area if the program is made available only on a 100% reimbursable basis?

Answer. The World Energy Resources Program benefited directly from a small amount of reimbursement in 1983 and 1984. The work involved petroleum geology studies in denied country areas but used published, nonclassified information. The final reports were and will be published in the open literature.

Future requirements for reimbursable project activity would be dealt with as they arise. However, some issues of great concern to the State Department, such as the Russian gas pipeline or the Falkland Islands war, have a resource component that can be ascertained only with study over a period of time. The Survey role has

been to maintain a continuing capability to assemble the necessary background information to address short-term and immediate requirements of other agencies, on a reimbursable basis, as world energy resource issues arise. Meanwhile, we anticipate an increasing need for information on world coal as the most logical alternate fuel for those countries unable to afford oil.

Other agencies will continue to use USGS expertise on a reimbursable basis.

OFFSHORE GEOLOGIC SURVEYS

Question. Beginning last November, the U.S. Geological Survey's research vessel S.P. LEE began an extensive research voyage throughout many areas of the Pacific Ocean. How has this research voyage progressed, what problems (if any) have arisen, and when is the LEE expected to return?

Answer. The present cruise of the S.P. LEE has so far accomplished most of its original plans on schedule. A Canadian sea-floor drill was tested at Juan de Fuca; new seismic data were obtained in the Bering Sea; surveys successfully showed--on a first-order reconnaissance basis--the presence of cobalt-rich manganese crusts on EEZ seamounts between Hawaii and Samoa; two 30-day cruises in the Wilkes Land and Ross Sea margins of Antarctica revealed the thickness of sediments, and geologic structure, and provided a beginning for considering the region's petroleum potential; and the Antarctic data give the U.S. a position for exchanging data with other countries that have Antarctic marine programs underway; the ship is now successfully conducting the South Pacific (SOPAC) surveys for the Agency for International Development (AID). The major problem so far was damage to the ship's rudder and harm to the seismic streamer caused by ice in the Ross Sea. The ship damage was repaired in New Zealand; the layup time and cost precluded an important research survey that had been planned for the Lord Howe Rise on the way from New Zealand to Fiji. The LEE will finish the SOPAC surveys in late July and will then return to home port in Hawaii, with a few days of cobalt-crust search in the Marshall Islands en route.

Question. Does the Survey have enough funds available to complete this research voyage as originally planned, or will funding shortages cut short or reduce certain planned research?

Answer. The cost of the Antarctic surveys--planned to be inexpensive by taking advantage of being in the SOPAC region anyway--was originally projected to be about \$2,000,000 to be supported by \$1,500,000 from an industry group and \$200,000-\$600,000 in Australian research funds. After the advance preparation for National Science Foundation logistical support had been made, and the Antarctic cruise was already underway, it turned out that neither the industry nor Australian funds would be forthcoming. This necessitated keeping to an absolute minimum all planned work and program expenditures for the remainder of FY 1984, in order to assure not overspending available authorized funds.

Question. Has GS included enough funds in its FY1985 request to perform necessary maintenance and repairs on the LEE when it returns? Are funds requested to make preparations for future research voyages?

Answer. The base funding for the marine program covers normal maintenance and will stretch to cover unusual repair costs such as will be incurred in bringing the seismic streamer back to full capability. No new funds are requested in FY 85 for new survey preparations;

on present base funding, the LEE is only expected to sail every other year, so the coming year will be one of analyzing 1984 cruise data and getting out products.

Question. The Survey has proposed to add a fourth subelement, Exclusive Economic Zone (EEZ) Baseline Corridors Assessments, to the Offshore Geologic Framework program. While your description of projects and activities under this new element appear justifiable, you do not assign specific amounts to this or any other of the remaining three subelements. As you have proposed level 1985 funding for the total Offshore Geologic Framework program, we can only assume you are going to do less in the other three ongoing subelements. Is this correct?

Answer. Except for work sponsored by AID (SOPAC, Caribbean), or one-time cruises to establish a U.S. position in Antarctic research, marine program activities are in the EEZ. The subelements are merely a way of categorizing the main parts and objectives of the research and resources program. Thus, the fourth subelement, or studies of geologically representative EEZ baseline corridors extending to the 200-mile boundary, is intended as a way of focusing and prioritizing the normal range of studies in the total (former) package of 3 subelements. This was deemed useful because of the high priority and visibility of the resource issue of the EEZ and because of the huge size and scope of the EEZ. Understanding the resources calls into play all the program elements and research capabilities.

Question. What are the total amounts available for each of the subelements and what amounts have you specifically taken from each of the three ongoing elements to fund the new EEZ activity?

Answer. The EEZ subelement is funded at the FY 1984 Congressional add-on amount of \$5,000,000. The original three elements remain at the FY 1983 level. Estimates for the subelements for FY 1985 are:

Marine Depositional, etc.	\$ 4,000,000
Regional Geologic Framework	7,060,000
Formations of Marine Energy and Minerals	3,000,000
EEZ Baseline Corridors	<u>5,000,000</u>
Total	\$19,060,000

DATA COLLECTION AND ANALYSIS, FEDERAL PROGRAM

Question. Again in FY 1985, you have proposed significant reductions in the overall Water Resource Investigations activity, this year totaling \$16,648,000. With respect to the National Water Data System--Federal Program, you have proposed a net reduction of \$1,727,000 from the FY 1984 level; however, there are a number of relatively small increases and decreases which make up this total.

Under Data Collection and Analysis, you have proposed to reduce ground-water measuring sites from 5,000 in FY 1984 to 4,500 in FY 1985; reduce storm runoff data collections from 25 urban sites to 20 such sites; and reduce the National Stream Quality Accounting Network stations on the nation's major rivers from 503 to 501. While these changes likely have little budgetary impact, they nevertheless leave some doubt as to the validity of data collected throughout the country. Can these collection site reductions be made without adversely affecting the quality of data produced?

Answer. The changes shown in the FY 1985 Budget Justification regarding the number of ground-water sites principally reflect modifications to measurement schedules, whereby data are collected from some wells every 2 years rather than annually. The development and operation

of data-collection programs are continually evolving activities. Some stations are operated for many years; others are discontinued each year when their purpose has been served. New stations are installed as required by changing needs and priorities. Currently, for example, the Geological Survey is systematically analyzing its entire stream-gaging program to identify opportunities to improve its effectiveness. Modifications, such as those described, reflect the Geological Survey's continuing review of its water data collection networks. Adjustments, based on these reviews, will not adversely affect the quality of the data produced.

TRAINING, PUBLICATIONS, AND SUPPORTING SERVICES

Question. For Training, Publications, and Supporting Services, you have proposed a reduction of \$2,288,000, or 66 percent from the 1985 base funding level. Your justification indicates that funding for the production of publications of scientific information will be derived from the producing program and that no reduction of publications is expected. Please identify for the record how much from each producing program activity will be taken to meet these publication costs.

Answer. In order to continue to provide funding for publications these costs would be taken in the amounts identified from the following producing programs in FY 1985:

National Water Data System -- Federal Program

Data Collection and Analysis	\$ 582,000
National Water Data Exchange	36,000
Coordination of National Water Data Activities	33,000
Regional Aquifer Systems Analysis	505,000
Core Program Hydrologic Research	223,000
Improved Instrumentation	71,000
Water Resources Assessment	48,000
Toxic Substances Hydrology	308,000
Acid Rain	110,000
Environmental Affairs	27,000
Supporting Services (remaining functions)	39,000
Water Resources Scientific Information Center	<u>32,000</u>
Subtotal	\$2,014,000

Energy Hydrology

Nuclear Energy Hydrology	262,000
Oil Shale Hydrology	<u>12,000</u>
Subtotal	<u>\$ 274,000</u>
Grand Total	\$2,288,000

NATIONAL WATER DATA EXCHANGE (NAWDEX)

Question. For the National Water Data Exchange activity, your proposed reduction of \$236,000 from the FY 1984 level will result in a 60 percent reduction in development of the software program. How important is this software development activity to the overall program? How long will this reduction delay completion of the NAWDEX?

Answer. The National Water Data Exchange (NAWDEX) Program provides the software development and ADP support required to maintain the nation's central catalog of information on water data as required

by OMB Circular A-67. Because water data acquisition activities continually change, this data indexing activity is ongoing. The centralized catalog is used by dozens of Assistance Centers to locate sources of water data as a user service. The reduction would delay revised indexing and information distribution capabilities for about 3 years.

Question. To what degree can user fees realistically make up this proposed reduction?

Answer. User fees have been assessed throughout the life of the Program consistent with OMB Circular A-25. Some increase in fees may be feasible. However, total offset of the budget reduction proposed is not considered achievable. It is estimated that the fees charged for services performed by the NAWDEX Program Office can generate receipts in FY 1984 amounting to approximately \$6,000. We are exploring other increases consistent with the Administration's policy on computer-based data systems.

COAL HYDROLOGY (FEDERAL PROGRAM)

Question. With regard to the Energy Hydrology program, you are proposing no funds for the coal hydrology element. This represents a reduction of \$4,424,000 from the FY 1984 appropriated level. Your justification for this reduction is that, under the terms of the Surface Mining Control and Reclamation Act and with shift to State primacy, States and industry will now be responsible for the collection of data and information to support coal permitting, and development. While I don't necessarily disagree with this approach, it seems to me that you have not made provisions for hydrology work to be done on all Federal lands. For example, under the terms of the Surface Mining Act, certain coal lands, such as those controlled by Indian tribes must be regulated by the Federal government. Similarly, some, but not all Federal lands are regulated by the States through cooperative agreements.

Have you developed your justification in conjunction with OSM to make sure they have the funds to pay for any necessary studies? If work on lands such as these must be conducted, but a reimbursement from OSM or the tribes cannot be arranged, will USGS simply not do the work?

Answer. While the Geological Survey could undertake minor investigations under our own funding, major coal hydrology studies on Federal or tribal lands would have to be funded by other agencies, such as the Office of Surface Mining, the Bureau of Land Management, or the Bureau of Indian Affairs, or by the tribes. These other Federal agencies have been made aware of the termination of the Geological Survey's Federal Coal Hydrology Program and have been requested to consider this in their own budgetary planning. With regard to the needs of States which have assumed primacy, \$1 million of the \$4.4 million reduction in the Federal Coal Hydrology Program has been reprogrammed into the Federal-State Cooperative Coal Hydrology Program. This will provide increased opportunity for USGS hydrologic investigations in support of the States' responsibilities under the Act.

GENERAL ADMINISTRATION

Question. As indicated on page SIR-2 and 3 of the justification, general administration expenses are financed in part by the budget line item and in part by assessments on funds from other Federal and non-Federal sources. For the record, please explain in detail the methodology by which these costs are so divided.

Answer. General Administration Expenses (GAE) of the Geological Survey are financed by direct appropriations and assessments of 5.5 percent on funds from other Federal Agencies and sundry non-Federal sources. No assessment is levied on cooperative funds from State and local governments.

Question. On page A-6 of the justification, you have proposed a reduction of \$223,000 and 19 full-time equivalent positions for General Services and Office Support. However, you provide no real reasons or justification supporting this reduction. Please provide such detailed information for the record.

Answer. The reduction of \$223,000 and 19 FTE's for General Services and Office Support is made up of the following elements.

- o 5 FTE's relate to the Administrative Operations share of the total Survey FTE reduction for FY 1985. This reduction can be accommodated through attrition and improved work methods (ADP applications) in supply management functions.
- o 14 FTE's and the \$223,000 are associated with two activities scheduled for A-76 review: mail services; and warehousing, packing and loading dock activities. A decision to contract out these activities has not been made.

Question. Should 100 percent of this pay supplemental be absorbed, how much would you reduce each program to meet the \$8,484,000 total? Where would the funds be derived for a 50 percent absorption?

Answer. The information displayed on GS-SIR-17 and 18 identifies major examples of the programmatic impact of absorbing the FY 1984 pay cost. The pay cost would have been distributed on an equal basis to all programs on the basis of FTE levels associated with the programs. Funds for a 50 percent absorption would be handled the same way with only half the programmatic impact.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

Question. Please provide a detailed description, and time table, of the type of research USGS is conducting in the Gorda and Juan de Fuca Ridges. Does such work include deep sea dives? If so, how many? How many scientists are specifically assigned to conduct and monitor this research? What level of funding has been apportioned in this year's budget to conduct such research in the Gorda and Juan de Fuca Ridges and what are the anticipated funding needs as continued in the FY 85 request?

Answer. In FY 1983 and FY 1984, two series of cruises have been conducted in the Juan de Fuca and Gorda Ridge areas. A cruise aboard the Research Vessel S. P. Lee from August 19-September 1, 1983, collected geophysical and photographic data which permitted a detailed mapping of specific ridge sites. This work was done in preparation for an effort to experiment with a Canadian drill to sample the ridge deposits and to locate sites for making submersible dives in FY 1984. The drilling and sampling was completed by the LEE in September 1983 as part of the pole-to-pole research cruise. The geophysical and photographic surveys were very successful and broadened our basic knowledge of ridge geomorphology and the location of specific vents with deposits of polymetallic sulfides. For example, new vents/deposits were located and some vent deposits previously thought to be a few tens of meters in areal extent actually extended for hundreds of meters. The drilling effort in FY 1983 not only tested a new technology in cooperation with the Canadians but also lead to the discovery of lava-bubble voids within the ridge which might make ideal chambers for deposition of metallic deposits within the ridge structure itself.

Between September 24 and October 7, 1983, scientists from the USGS and the Hawaii Institute of Geophysics carried out a variety of geophysical measurements over the Blanco Fracture Zone and the Gorda Ridge aboard the Research Vessel Kana Keoki. Side-scan sonar imaging, swath bathymetry, gravity, magnetics, and seismic reflection data were obtained along 2,360 km of tracklines. The Sea MARC II instrument collected side-scan imagery over a 10-km wide swath resulting in the acoustical mapping of more than 23,000 sq km of sea floor. These regional mapping efforts of the geological framework are a first step in identifying and locating potential resources.

These data provided the baseline information in the selection of sites for a series of 15 submersible dives in late September and early October 1984. These dives, which will be conducted by NOAA, involving about 20 USGS scientists and the ALVIN, are designed to collect hard mineral samples and water samples which will help to define the composition of the deposits and to better understand the processes leading to the formation of polymetallic sulfides. Some of the planned 15 dives also involve mapping the areal extent of specific deposits.

Our efforts to collect, analyze, and report data on the hard mineral resources of the Gorda and Juan de Fuca Ridges in FY 1984 has required expenditures of approximately \$2,000,000. Funding in FY 1985 to cover the submersible work, sample analysis, and to report out the findings will amount to about \$600,000. As many as 40 USGS and university scientists will be involved in studies of the samples obtained, to gain understanding of the sulfide deposits.

Question. Does the USGS currently coordinate or cooperate on research with NOAA, or any other federal or state agency, on non-energy mineral activities in the Gorda and Juan de Fuca Ridges?

Answer. Our research efforts on the Gorda and Juan de Fuca Ridges have involved coordination and cooperation with NOAA, MMS, Bureau of Mines, Hawaii Institute of Geophysics, Oregon State, University of Washington, and the Canadians. This cooperation extends to the sharing of cruise time, samples, and analyses and co-authoring of reports.

Question. Does a formal agency plan exist for USGS to conduct such non-energy mineral research prior to the Department's issuing of mineral leases in the OCS?

Answer. No formal plan currently exists, but an Interior Task Force is now delineating Bureau roles, and the USGS is working with MMS for mapping and specific investigations.

Question. Currently NOAA is conducting non-energy mineral research in the Gorda Ridge and Straits of Juan de Fuca. Would the USGS find it valuable to have that information shared with them? Would the USGS find it valuable to accompany NOAA on one or more of the upcoming dives this summer or fall? Why or why not?

Answer. As of very recent times, the USGS and NOAA are working closely together in sharing data, designing program elements, and mutual participation in cruises. The dive programs of each agency are rigorously limited to a few scientists, and exchange of personnel would not be practical at this time, but in future dive programs, the USGS will seek such exchange when the programs are being designed.

Question. Has the USGS, in fact, found any critical or strategic minerals in the Gorda or Juan de Fuca Ridges? Has the USGS made a determination on the "commercial viability" of any known mineral deposits in the

Gorda or Juan de Fuca Ridges? If not, at what point during the research prospectus might such a determination be made?

QUESTIONS SUBMITTED BY SENATOR DANIEL K. INOUE

- Question. What plans for the next fiscal year does the USGS have for the Hawaiian Volcano Observatory?
- Answer. Major activities planned for the Hawaiian Volcano Observatory during fiscal year 1985 focus on the continued monitoring of the two active volcanoes, Kilauea and Mauna Loa. Intensive monitoring of Kilauea, which just completed the 18th phase of an eruption that began in January 1983, will be maintained. The monitoring of Mauna Loa, presently in a state of repose after its March-April 1984 eruption, would include an expanded geodetic network for ground deformation studies and improved seismic data transmission for rapid epicenter determinations. An improved capability to monitor ground-tilt at critical stations on both Kilauea and Mauna Loa will include a new, computer-initiated system to interrogate tilt sensors at specified times. The geodetic, ground tilt, and seismic networks are used in concert to detect and map the subsurface movement of magma. We are also considering the geodetic and seismic coverage of Hualalai, the third Hawaiian volcano to have erupted in historic time (1801). In addition, some remaining restoration of facilities and equipment damaged during the November 1983 magnitude 6.6 Koaiki earthquake may be undertaken.
- Question. How much will USGS expend in the next fiscal year on the Hawaiian Volcano Observatory?
- Answer. Work at the Hawaiian Volcano Observatory will be funded at approximately \$1,800,000 in fiscal year 1985. Options for funding equipment replacement and improved monitoring networks are under review within the Department.
- Question. What action has the USGS taken to repair the damage at the Hawaii Volcano Observatory caused by the earthquake in November 1983?
- Answer. Only short-term repair of the more important equipment and facilities at the Hawaiian Volcano Observatory has been carried out. Debris from building damage, shelving and other furniture that was wrecked beyond repair, and destroyed supplies have been cleared away. However, no repairs have been made to buildings, and no shelving or other furniture have been replaced. Repairs have been made to the more critical monitoring equipment, including seismic and deformation equipment, to put them back into operation, but these repairs are only temporary. Some items of electronic maintenance equipment have been replaced, but other vital instruments have only make-shift repairs. Portable monitoring systems are being used in place of certain permanent installations that were destroyed; however, this requires a considerable amount of time on the part of several people. Lastly, recalibration of ground-tilt and seismic sensors is being carried out as time permits.
- Question. How do you specifically plan on spending \$4.8 million you have requested to upgrade the facilities at the Hawaii Volcano Observatory?
- Answer. The National Park Service (NPS), as agent for the Geological Survey, has completed the construction drawings and specifications and is prepared to invite bids for construction should the construction funds become available as the result of FY 1984 Congressional action. If funds are appropriated, NPS

would invite bids, award the construction contract, and supervise the construction. Construction would be planned so that the Hawaiian Volcano Observatory can continue to operate in the old structure until the new building is completed. The old building would then be rehabilitated for NPS use. The President's FY 1985 Budget does not include the Hawaiian Volcano Observatory construction project; however, it is under consideration in the FY 1986 process.

SUBCOMMITTEE RECESS

Senator McCLURE. The subcommittee will stand in recess until 2 p.m., Tuesday, May 14, when we will review the fiscal year 1985 budget request for the strategic petroleum reserve, naval petroleum and oil shale reserve, and emergency preparedness.

Mr. PECK. Thank you, Mr. Chairman.

[Whereupon, at 11:30 a.m., Thursday, May 10, the subcommittee was recessed, to reconvene at 2 p.m., Tuesday, May 14.]

DEPARTMENT OF THE INTERIOR AND RELATED
AGENCIES APPROPRIATIONS FOR FISCAL YEAR
1985

THURSDAY, MAY 17, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 1:30 p.m., in room SD-138, Dirksen Senate Office Building, Hon. James McClure (chairman) presiding.

Present: Senator McClure.

DEPARTMENT OF AGRICULTURE

FOREST SERVICE

STATEMENT OF HON. JOHN B. CROWELL, JR., ASSISTANT SECRETARY,
U.S. DEPARTMENT OF AGRICULTURE

ACCOMPANIED BY:

R. MAX PETERSON, CHIEF, U.S. FOREST SERVICE

F. DALE ROBERTSON, ASSOCIATE CHIEF, U.S. FOREST SERVICE

WILLIAM L. RICE, DIRECTOR, PROGRAM DEVELOPMENT AND BUDGET,
U.S. FOREST SERVICE

OPENING REMARKS

Senator McClure. First, let me apologize for being late. With votes on the floor, it's not always possible to set our schedules nor keep them.

I want to welcome each of you back for a continuation of the Forest Service appropriations hearing for fiscal year 1985 and follow the first apology by apologizing again for having to interrupt the earlier hearing. I hope we'll be able to complete this this afternoon. But as you will recall, the purpose for the interruption last time was to complete the final negotiations on a wilderness settlement, and that worked, so the interruption was for a good cause.

Mr. Secretary, if you will again introduce your colleagues for us and the reporter, we will resume our questions.

INTRODUCTION OF ASSOCIATES

Mr. CROWELL. Thank you, Mr. Chairman. To my immediate right is Chief Peterson and to my left is Associate Chief, Dale Robertson. To Chief Peterson's right is the Forest Service Budget Officer, Mr. William Rice.

We have other personnel from the Forest Service seated behind us. In case your questions reach a level that none of us here at the front can respond to, we have some experts behind us.

INTERNATIONAL TRADE

Senator McCLURE. Thank you. We've receive a number of letters supporting an expanded international trade research initiative. What will the impact of the reduction in this area be that you have proposed? As I recall, it's a \$223,000 reduction, and I don't know how much that's related to the international trade initiative. That's on page 38.

Mr. PETERSON. Yes; I believe that about one-third of that reduction is related to international trade which takes place in several locations, as indicated in the explanatory notes. It will probably delay expansion of the research that we had planned to do in the Pacific Northwest in Seattle, looking primarily at nontrade barriers to international trade. We will carry on a small program at Seattle, as well as in other locations.

Senator McCLURE. As you know, we have a ban on log exports, and you referred to nontariff barriers. I assume you're talking about barriers to finished products.

Mr. PETERSON. That's correct, primarily in countries like Japan and some European countries, where there are quotas or standards that tend to act as barriers. We've had a substantial problem working on things like exporting oak wood to Europe, which we now have resolved.

Senator McCLURE. As I recall the figures, the 1982 imports were about \$8.3 billion in forest products, while our exports were about \$7.1 billion. If you have those figures——

Mr. PETERSON. That's correct.

Senator McCLURE. All right. How much are we now spending on international trade research?

Mr. PETERSON. About \$400,000.

Senator McCLURE. So it would be a 20-percent reduction?

Mr. PETERSON. Yes, sir.

Senator McCLURE. Do we know the financial dimensions on the current ban on log exports, how much that costs us?

Mr. PETERSON. We really don't know the full ramifications. As you know, the ban applies to public land only. Private landowners can export logs. If you could export from public lands, the value of public logs probably would increase because in some places, ports are more accessible. There would also be other implications. There would probably be an increase in round wood exports, where the price overall might go down a little bit, even though it would go up on public lands. The overall price might go down a little because there would probably be an increase in supply.

The effect might mean that less lumber would be exported from both the United States and Canada.

There probably would also be some disruption in local mill operations in cases where mills depend heavily on Government timber. These mills would have to compete in the export market.

These are just some of the dimensions.

Senator McCURE. Could you provide for the record, please, some estimates of the tradeoffs and how much they cost us in terms of lumber import tariffs in other countries or other factors such as quarantines? Give us a little listing of what the inhibitions of the foreign trade on the exports of our lumber products may be and how much that costs us, if you can make an estimate of dollar volumes.

Mr. PETERSON. I think we can give you a summary of what the barriers are. We'll do the best we can on financial implications.

[The information follows:]

FINANCIAL DIMENSIONS OF LUMBER IMPORT TARIFFS, OR OF OTHER FACTORS, SUCH AS QUARANTINES OR TARIFFS IMPOSED BY OTHER COUNTRIES

The financial dimensions of tariffs and other factors imposed by other countries vary in importance, depending on the product and stage of economic development of the country in question. While we do have some estimates of the effects of tariff and nontariff restrictions, detailed figures and impacts cannot be precisely evaluated without additional information.

In developing countries, tariff and nontariff trade barriers are many, varied, and often prohibitive. Tariffs on imported softwood lumber can exceed 100 percent and can change with little warning.

Developed countries are the recipients of most U.S. export—the Common Market, Japan, and Canada together account for over 60 percent of U.S. sales in recent years. In these countries, tariffs are generally less than 10 percent or nonexistent.

In the Common Market, for example, a tariff of 10 percent would add \$30 to \$40 per ton to the delivered price of U.S. linerboard. This is a significant additional cost, but not as important if all competitors were treated the same. Since the beginning of 1984, countries of the European Free Trade Association, which includes the Scandinavian countries, can sell their paper and board products duty-free in the Common Market. U.S. producers must continue to pay tariffs. If this practice continues, it will undoubtedly reduce the market share of U.S. producers, resulting in the loss of millions of dollars in sales.

The Common Market has a duty-free quota of about 600 million square feet (600,000 cubic meters) for softwood plywood from all sources. Volume in excess of the quota is subject to a tariff of 11.5 percent. This quota is disruptive to U.S. marketing of softwood plywood because importers tend to buy volume up to the quota early in a year and then stop all purchases, creating an on-off market situation which makes production scheduling difficult.

Potential implementation of more restrictive quarantine restrictions on U.S. oak lumber and logs could become a much bigger obstacle to international trade with the Common Market. The Europeans feel that oak logs and lumber from the United States could be carriers of oak wilt disease. At the present time, U.S. oak logs must be certified as originating from a country that is free of oak wilt. Quarantine restrictions could require fumigation of logs and lumber or other practices that would increase the relative cost of U.S. products, resulting in sales losses in the millions of dollars. In recent years, we have had annual sales of over \$150 million in hardwood logs and lumber to the Common Market.

Japan has tariffs of 15 percent on veneer and softwood plywood, tariffs of up to 13 percent on various types of fiberboard, tariffs of 5 to 10 percent on various pulp and paper products, and a tariff of 10 percent on spruce-pine-fir lumber.

Canada levies charges of 4 to 17 percent on imported moulding and millwork, and 6.5 to 9.2 percent for various types of hardboard. Tariffs of at least 6.5 percent are assessed on various grades of paper and paperboard. Softwood plywood imports are charged a tariff of 15 percent.

Scale and variability considerations in manufacture of final product for export is a major nontariff factor influencing foreign trade in forest products. Most of the current U.S. exports of timber products such as lumber and linerboard are semi-processed products which are remanufactured in the country of destination. This remanufacture occurs because sizes, grades, and standards, and building codes vary around the world. Therefore, U.S. producers do not generally process to foreign specifications for end products. Perhaps the best example of this problem is the standard 3 by 6 foot panel in Japan as compared with the U.S. standard of 4 by 8 feet. Significant sales of U.S. softwood plywood in Japan would require our meeting this size standard. At present, however, there is only a very limited market for softwood plywood in Japan and U.S. producers would be reluctant to dedicate a plywood mill to the Japanese market until a market potential has been demonstrated. Market potential cannot be demonstrated until U.S. producers develop the market. Similar, but less extreme, examples could be cited for U.S. sales of softwood plywood in Canada and for softwood lumber and plywood sales in the Common Market.

In summary, the U.S. timber industry is confident that annual export sales of timber products could increase on the order of hundreds of millions of dollars if tariff and nontariff trade barriers could be eliminated.

TIMBER AND LUMBER IMPORTING

Senator McCLURE. Do you have an idea at this time about the best strategy that we might employ to move the United States from being a net importer to at least a balance or a net exporter of timber and lumber products?

Mr. PETERSON. Some of the things are already underway. U.S. mills are now cutting lumber to meet specifications of some international markets. They're able to do that through computerized sawing. That's one thing that's already happening.

We also, quite frankly, need to know more about some of those markets, in terms of specialty products. The Foreign Agriculture Service in the Department of Agriculture, as well as Commerce, and industry, are stationing some people abroad to learn more about those markets.

Senator McCLURE. I have some questions with respect to research in the area of fish and wildlife and range, some with respect to research and timber management, but I'll submit those for the record rather than take the time at this time.

Mr. PETERSON. Thank you.

INITIATING A NEW COMPETITIVE GRANTS PROGRAM

Senator McCLURE. How would you react to a proposal to fund, for the first time, the Competitive Grants Program that was authorized in 1978?

Mr. PETERSON. We think the concept of a Competitive Grants Program is a good one, in that it would allow the scientific community, whether they are employed by the Federal Government, university or private industry, to compete for Federal research grants. If such a Competitive Grants Program was authorized in Agriculture, we would assume it would be administered through the Competitive Grants Office

and the Cooperative State Research Service. We believe this would be a good way to get competition in important forestry activities.

Senator McCLURE. As I understand it, the Forest Service scientists, would be eligible to compete for grants to supplement the direct appropriated funds; is that correct?

Mr. PETERSON. That's correct.

Senator McCLURE. So they'd be open and free competitors in that process.

Mr. PETERSON. Yes, sir.

Senator McCLURE. Do you have any suggestions as to what specific forestry research activities should be identified as areas to be funded?

Mr. PETERSON. We have very little experience to date on this, of course. We've looked at what other agencies have done. We think probably the basic research problems are the best type approached through competitive grants. Some basic research might relate to economics, consumer benefits, engineering and material sciences, and to some parts of genetics. It could be a very broad spectrum.

STATE AND PRIVATE FORESTRY

Senator McCLURE. Overall, the State and Private Forestry Program is proposed at a level of \$25,505,000, a reduction of \$35,593,000 or a reduction of 58 percent in that program. By program area, the reductions are as follows: The Forest Pest Management Program is proposed at a level of \$15,550,000, a reduction of \$13,884,000 or 47 percent; the Fire Protection Program is proposed at a level of \$3,065,000, a reduction of \$10,968,000 or 78 percent; the Forest Management and Utilization Program is proposed at a level of \$3,890,000, a reduction of \$6,896,000 or 64 percent; and special projects are funded at a level of \$3 million a reduction of \$3,845,000 of 56 percent.

For the third year in a row, the budget proposes a drastic reduction in these programs. The real analytical difficulty we have in formulating or reviewing the State and Private Program budget, especially the forest management and utilization activity is in answering the questions of what needs to be done, by whom and for whom?

Can you summarize for us the findings and conclusions of a recent U.S. Department of Agriculture policy paper entitled "Policy Options for Forestry on Nonindustrial Private Holdings and Related Assistance Programs?"

Mr. PETERSON. That policy option paper was an attempt to put together what we know about State and private landowners, who they are, where they are, what kind of programs they use, what kind of assistance seems to have been effective in the past and what are some of the options. It did not attempt to, at that point, arrive at solutions. It was really a discussion paper for the nonindustrial private forestry conference held in St. Louis that Assistant Secretary Crowell called. Maybe he would like to comment further on that.

Mr. CROWELL. Well, as the Chief indicated, Mr. Chairman, we felt that it was time to see if we could get some consensus among the vari-

ous sectors of the forestry family about what the needed priorities for improving management of nonindustrial private lands might be. We scheduled this conference in St. Louis. It was very well-attended, and I think it was well-received. We got out of it quite a number of useful suggestions from the various sectors of the forestry family. Attendants, besides people from the Federal Forest Service and the Bureau of Land Management, were consulting foresters, some representative private landowners who are interested in forestry, State foresters, extension foresters, and the industry.

We are about to publish the proceedings from that conference which will include, of course, the very significant number of good suggestions that came out of it. We haven't quite decided just what the next step ought to be, but I can assure you that we are very interested in following through and trying to reach some sort of action consensus.

We, I think, have made it clear that there is certainly a limit on the amount of Federal funding that can be put into dealing with that problem. We believe it's a problem that needs to be approached cooperatively, which is the approach we took with the conference. We think that by identifying the areas that need work, assigning priorities to those and then, most interestingly of all, assigning responsibility to one sector or another of the forestry family, that we may be able to see some progress in these areas.

I envision a close cooperative effort with the Forest Service serving a coordinating but not a dominating role.

Senator McCLURE. Let me give you three or four figures that I understand to be a part of the findings in that policy paper. About 8 percent of the nonindustrial private forest landowners own 75 percent of all of the nonindustrial private lands in the country, and all of these lands are in tracts of 100 acres or larger. About one-third of the time, a professional forester was contacted before private, nonindustrial landowners harvested timber and, similarly, owners received professional advice for reforestation assistance in about one-third of the cases.

I believe those facts came from the policy option paper.

And finally, that timbers growth continues to exceed timber harvest on nonindustrial private forest lands.

Have you used those findings and conclusions to shape your budget request, along with the statements you made a moment ago of what the outcome was or what the findings were in that conference? Did they go into shaping your budget request?

Mr. CROWELL. No; the budget request that's before us here was shaped before the conference took place, but after the paper that you've alluded to that brought forth these facts. These facts have turned out to be very, very interesting. The figures that everybody's been working with in the past were that we had about 7.8 million private forest landowners, and one of the problems in trying to deal with the so-called nonindustrial private forest land problem has been to focus programs where they could get something done. Seven and one-half million owners is an awfully big spectrum in which to work, but the signifi-

cance of that study, indicated that about 75 percent of the nonindustrial land was owned by only 600,000 owners. This indicates that if we focused on those 600,000 owners, we're likely to get far more in the way of accomplishment.

That was one of the facts that was discussed in some detail at the St. Louis conference. It was one of the things which we would be building a consensus of how to approach the problem of getting more productivity from the nonindustrial land.

Senator McCLURE. The conference was not held in time for you to reflect it in your budget, but the option paper study was available to you. Did you include any of those in formulating your budget?

Mr. CROWELL. No; the option paper that you alluded to earlier was put together for the conference. The paper I'm referring to was the study result that was published about the winter of 1982 or late 1981, which was reporting on a 2- or 3-year study that the Forest Service had conducted.

Senator McCLURE. As I recall, one of the conclusions of the analysis was that Federal cost-share money through the Forestry Incentive Program and the Agriculture Conservation Program supported nonindustrial private forest land management by contributing to the development of the critical mass of vendors of forest management services.

Do you agree with that conclusion?

Mr. CROWELL. There was another study that the Forest Service published sometime after late 1981, following on this one about the landowners, which was an analysis of the effectiveness of the FIP, the Forestry Incentives Program. Since it was done by the foresters, not surprisingly, they concluded that it was a good program.

I am sure that it is a good program, but one has to question the advisability and the wisdom from a public interest standpoint of continuing to rely on a Federal program which can never be adequately funded, really, to meet the needs or the desires of this great body of forest landowners.

We really need to try to find some other way to motivate them to practice forestry in a way which will include productivity of their lands, not just for timber, but for all of the multiple use benefits that come from forest land. Obviously, one of the best ways in which to do that is to have reasonably priced values for stumpage. We think that from the RPA assessment, it is coming. It is already present in a good many parts of the country. In fact, another recent study by the Department of Agriculture, the joint agency study has indicated, rather surprisingly, that the best investment opportunity on some types of lands in the South is in forestry, in planting trees. A very significant finding, I believe, and one which I think will, when it becomes better known to nonindustrial private owners, is going to lead to some significant investment. Those are going to be aided by the incentives that the Congress put in place back in 1980 with some of the credits for investments in forestry, and for the accelerated depreciation of investments above and beyond what they can earn the credits for.

So we have a lot of things, in place right now, Mr. Chairman, which are likely to see some pretty significant changes in the forestry practices on nonindustrial private lands. I'm quite encouraged. The more I learn about it, the more optimistic I am that the great difference between the acreage of commercial forest land and nonindustrial private ownership, which is about 60 percent of all commercial forest land has only 23 percent of the standing softwood inventory and is likely to improve. Eventually, if you had the right mix, you'd expect the inventory figures to be about the same as the ownership percentage figures. We're a long way from that. They're practically reversed with respect to nonindustrial private ownership and Forest Service ownership.

Senator McCLURE. You have indicated, I believe, that to do better than in the current program, we need to develop a different mix of incentives and a different kind of partnership.

Mr. CROWELL. That's my tentative conclusion, as a result of this ongoing exposure I've had now for 3 years to this. I'm real interested in trying to get hold of this problem.

Senator McCLURE. You hinted that maybe you would have enough authority under existing statutes to be able to restructure by administration that new program and new coordinating role.

Am I correct on that, or do you believe it would require changes in the statutes?

Mr. CROWELL. I really didn't mean to imply anything of that sort. What I was really meaning to say was, that I felt that this renewed effort, or effort in a new direction, was going to have to be largely cooperative. I'm quite sure we have adequate authority for Forest Service participation. As we move along this process, with the other sectors of the forestry community, if we don't have adequate authority, we'll sure be up asking for whatever we think would be appropriate.

Senator McCLURE. We all wear different hats at different times. This hat I'm wearing right now is that of the Appropriations Committee, where we are supposed to take existing authority under existing law to make funding judgments under it. So technically speaking and quite narrowly speaking, some would say properly, I shouldn't be trying to talk about how we develop programs. We ought to be talking here about how we fund existing programs until a new program is formulating.

And if I understand your last reply correctly, well, it may be possible to fashion a better program than the one we now have. We don't have a better program now in place. All we're really dealing with then is how do we manage these programs under the current laws.

Mr. CROWELL. That's correct.

Senator McCLURE. And I think it's quite likely, based upon past history of the actions in this committee and in the full committee, as well in the Senate as a whole and in the other body, that Congress will increase the funding for State and private program area again this year.

If that's the case—and I don't ask you to approve that, because I know what your budget submission is, but if that is the case, would you

agree that we should require targeting of these funds to those 600,000 nonindustrial private landowners that own the 75 percent of the non-industrial private land or is that a bad thought?

Mr. CROWELL. No; I think it would be premature to do that, Mr. Chairman. I think the best audience for probably new facts about forestry would be that group of 600,000 landowners, but the problem really that we've had to deal with in the past was disinterest, lack of knowledge, and the whole group of over 7½ million. If we get some interest from people who own less than 100 acres, I think it's quite appropriate to respond to this.

I urge that you resist the idea that you just expressed, at least until we get further along in shaping our own notions cooperatively with the forestry community.

Senator McCLURE. Do you have any reason to believe that you're going to get more interest in the next few months than you've gotten in the last several years?

Mr. CROWELL. I think the interest is growing as landowners become more aware of the opportunities afforded by forestry investment in comparison to other investments which typically would be some sort of agricultural use, be it grazing or crop land use. And I think that it's becoming increasingly apparent that forestry can compete, at least in certain sections of the country, quite vigorously with those other competitive uses.

The demand for forest products has every indication of continuing to go up long term. There are some immediate problems before us, basically, cash flow is a problem. When you make an investment in forestry, you don't get an annual return from it until you've got quite a lot of growth of management and land under your regime. The investments in forestry have great potential for being good-paying investments.

Senator McCLURE. But the nonindustrial private landowner has to see that.

Mr. CROWELL. I think there is a growing awareness of that.

Senator McCLURE. But for many of them, because of that long time, they don't have enough land base upon which to diversify their planting and harvesting schedule long enough to get cash flow.

Mr. CROWELL. That's right. Part of the reason why we're focusing on the 600,000 owners, who have more than 100 acres of forest land, is that they tend to also be the ones who are more informed, are most interested in managing their lands for a return, and consequently, are looking at the whole possibility of investment. I am encouraged about the potential here.

Senator McCLURE. The potential is all on the up side, I think.

Mr. CROWELL. The potential is all on the up side.

Senator McCLURE. The potential is all there.

One of the questions that I think we have to ask ourselves though is, if we've been unsuccessful so far in really mobilizing that sector, and I've been involved for several years in trying to find a way to get cash flow to people who commit their lands for long-term goals. That's very

hard to do where you have small landowners, who depend upon that land to produce income for part of their living expense. Typically, many of those small wood lot owners don't have other income, and they depend upon that land for current income, not for something for their grandchildren. The result is, they can't really do what larger landowners can do in a plan for 20, 30, 40, 50 years from now, they're worried about how they're going to get through the next 10 years, many of them how they are going to get through the next 10 months.

Mr. CROWELL. You've put your finger on what, of course, is one of the difficult problems in encouraging good forest practices on small ownerships.

Senator McCLURE. We've wrestled with various solutions, and the only reason I go into that at all at this point is that while we've wrestled with it for some years, we haven't found a solution yet. We also haven't found a solution to the interest of the small nonindustrial private landowner, and if we don't, that productivity is not going to increase. It will likely decline over the balance of this century. Isn't that right? Over the next 10, 20, 30 years?

Mr. CROWELL. I really don't look for the potential returns from the nonindustrial private lands to be any lower in the future than they have been or are right now. I think they're going to be on an upward trend.

Senator McCLURE. Are you talking about harvest or are you talking about growth?

Mr. CROWELL. I'm talking about both. In fact, I'm talking about harvest and accumulated inventory, which will mean growth.

Senator McCLURE. Accumulated inventory will be greater 30 years from now than it is now?

Mr. CROWELL. I think so.

Senator McCLURE. Well, doesn't that imply that we do less harvesting?

Mr. CROWELL. No; it could be simply that we are improving our inventories by getting the nonindustrial private forest lands to carry a larger inventory than they do now, as a result of their having overcut in the past.

Senator McCLURE. But you're also assuming that landowners will be able to apply good forestry management practices for those lands during the next 20 to 30 years.

Mr. CROWELL. Yes; and I'm certainly aware that you're going to get a broad range of forestry practices. Some people will apply very good ones; other people will apply very bad ones. One has to examine why we are doing this? What's our long-term public interest in being concerned about this problem? I think you have to look at it from two standpoints. One is improving the standard of living of landowners and the other is meeting the needs of society for products and amenities that can be produced by private forestry. And I think that both of those are objectives that the Congress and the administration ought to be concerned. I think the latter of them ought to be given a higher priority than the former.

Senator McCLURE. So this is really the desirability of improving the management and recognizing the potential of those forest lands. I think it's been pointed to by many, but so far we haven't been able to get there. Unless we do get there, it seems to me that without a change, we don't have a rosy future with respect to the productivity of those lands. If I recall correctly, the RPA itself shows that there is a shortage on those outyears, at least by the year 2030 on those lands. Am I not correct, Mr. Peterson?

Mr. PETERSON. Yes; let me add a couple of points to this. Let me point out that alot of the forest land is owned by farmers. Some of the best landowners that you can get is some farmer that owns 25 or 50 acres, where he could use the rest of his farm for current income and then manage the forest land. There are some who have 100 acres. That's all they have, and they badly need to earn income. So, it would be, I think, a very important thing to try to target this to above 100 acres under those kind of circumstances. Also, some of the most productive land that we have is between 25 and 100 acres. We have, as a matter of policy, set a minimum acreage to be sure it's under control, so it will, be productive for society.

I think there has been some progress.

Senator McCLURE. But I think in the aggregate, if we're going to make gains, we're going to have to do better than we've done.

Mr. CROWELL. What I'm saying, Mr. Chairman, is I agree with that, but I think there is reason to be optimistic when you look at improvements on a long-term basis rather than just 2 or 3 years, that we have reason to be quite optimistic, that we will continue to see progress. Really, the thing that drives this is the improvement in market possibilities for selling wood to a producer, to a manufacturer, and that they will profit and it will give a good return on the investment.

Senator McCLURE. You've suggesting that we shouldn't move toward targeting of that 8 percent of the landowners, 600,000 landowners that have the larger acreage.

Would it be correct to say that both FIP and ACP are targeted at the local level through the ASCS for ACP and through the State forester for FIP?

Mr. PETERSON. ACP is targeted locally, based on local needs.

Senator McCLURE. Is that an appropriate way to target?

Mr. PETERSON. I think in practice it's pretty good in terms of local people.

INSECT AND DISEASE SUPPRESSION

Senator McCLURE. If I can move a moment to insect and disease suppression, you're proposing a reduction in that of \$5,102,000. That's down 63 percent on Federal lands, down from a level of \$8.1 million to a level of \$3 million.

Are you using timber values as the only factor in determining of land and resources to be protected?

Mr. PETERSON. No, sir; timber value is only one of the factors.

Senator McCLURE. In using it in the application, I think that is correct. Have you, to the same degree, looked at other values in developing your budget estimate?

Mr. PETERSON. In the real world, some of the other values are much more difficult to quantify. For example, in Colorado and in parts of Idaho and parts of Montana we have a very serious mountain pine beetle problem.

Now, there the on-site benefits to wildlife, reduced fire control, and to improved stream flow are extremely difficult to quantify. We do try to set those out in the analysis we make on each situation.

Senator McCLURE. In 1983 we carried out insect and disease suppression activities on 1,000,343 acres of Federal land at a cost of \$9,263,000.

What do you expect will happen in fiscal year 1985 for the \$3 million requested?

Mr. PETERSON. That will be used for the highest priority projects, taking into account the likely outcome if we don't do something versus the values that would be protected if we did do something. That will mean a selection between competing projects.

Senator McCLURE. In other words, you are not going to try to tell us that the \$3 million is going to cover the need?

Mr. PETERSON. It is not going to cover every possible control of every insect, no, sir.

Senator McCLURE. Well, isn't one of our most basic responsibilities the protection of Federal lands from insects and disease, even if some of those infestations represent uneconomic infestations to treat?

Mr. PETERSON. I guess in the real world if you had unlimited capital, yes. In the world that we are working in, in some cases you are just reducing growth. If you get an infestation that is a defoliator, you get decreased growth.

Now, I think you can make a fairly important argument that it doesn't pay to spend \$2 to save \$1 worth of growth if the population may collapse in a few years.

Mr. CROWELL. Of course, it also makes sense to jump on an infestation immediately if it is the kind of thing that could spread and cause a great deal of additional damage, like a wild fire would. There are some insect outbreaks that are that sort. If we can identify those ahead of time, it is certainly money well spent to control those as near the point of outbreak as possible.

Senator McCLURE. Mr. Peterson, you say don't spend \$2 to stop the reduction in growth that is worth \$1—but if that happens in the same area where there are wildlife values, water resource values, recreation values, how then do you make the decision?

Mr. PETERSON. Well, we might very well do it if you had a mix of values that looked like overall it was in the public interest to do so. You would also look, as Mr. Crowell has indicated, at what happens if you don't do it. Is it going to be twice as big next year and the cost be twice as much?

In the real world we are faced with imponderables in terms of what will happen in some cases. Now, if it is southern pine beetle infestation, we know that if you don't take prompt action on that, it will actually just get worse. With some other kinds of insects or diseases we are not sure. Each one has to be treated differently.

Senator McCLURE. Yes; and sometimes you get reinfestation in succeeding years——

Mr. PETERSON. That is right.

Senator McCLURE [continuing]. Which under other circumstances would simply be defoliation and delay in growth——

Mr. PETERSON. That is right.

Senator McCLURE [continuing]. But begins to cause measurable mortality?

Mr. PETERSON. That is correct. In fact, in the gypsy moth infestation, the first year or two you may get very little mortality. If it continues, you start getting mortality.

And those are the kinds of things you have to try to evaluate.

Senator McCLURE. On State and private lands you propose to spend no money on insect/disease suppression as contrasted with \$7 million in 1984.

GYPSY MOTH INFESTATION

What is the outlook for gypsy moth infestation acreage in the summer of 1984 and 1985 on State and private lands?

Mr. PETERSON. Could I ask Mr. Schacht to give you a rundown on that, please.

Senator McCLURE. Surely.

Mr. PETERSON. Mr. Schacht is our Associate Deputy Chief for State and Private Forestry.

Mr. SCHACHT. Mr. Chairman, on our gypsy moth suppression activities, we will do our egg mass surveys, starting this summer and fall. It will be next spring before we will know the precise amount of damage that we will have to be able to respond to.

Senator McCLURE. I understand that, but you have some estimates, haven't you? You have some trend studies?

Mr. SCHACHT. We had 13 million acres defoliated in 1981, which is our highest. Defoliated acres decreased from 8.2 million acres in 1982, to 2.4 million acres in 1983. This year we are treating about 540,000 acres, and we would expect somewhere between 1 and 3 million acres that could be defoliated in 1985. But we are not sure yet at this point until we do those surveys.

Senator McCLURE. I had requested more information at the first hearing on this subject, and you prepared this paper which has been submitted to me dated May 10.

Mr. SCHACHT. Right.

Senator McCLURE. And I note in that paper it says, "On a nationwide basis it is our professional judgment that a significant decline in overall pest infestations is unlikely."

Mr. PETERSON. Well, what the entomologists have done there is they have looked at the southern pine beetle and the mountain pine beetle, the gypsy moth, and everything else, and there will be some ups and downs.

The best estimate is that we will have gypsy moth in some additional States next year, but we may see a continued collapse in other States.

When you take them all together, they are saying you are unlikely in any one year to see a significant decline.

Senator McCLURE. And until you can develop better estimates, that is what you must guess about?

Mr. PETERSON. That is what we must look at, that is right.

Senator McCLURE. It is a guess?

Mr. PETERSON. It is a guess.

Senator McCLURE. Then you, in that statement, went through the gypsy moth, eastern spruce budworm, western spruce budworm, mountain pine beetle, southern pine beetle, and dwarf mistletoe as the major components of your pest/disease reduction, and yet as I read your budget submission, you intend to do nothing, even though the level of infestation is likely to be the same.

Mr. PETERSON. Well, the budget assumes that there will be no cost sharing for the private land part of that unless it happens to be intermingled with Federal lands. It assumes that State and local people will take care of the part that occurs on private lands.

Senator McCLURE. Even though they did not do that last year? In other words, you expect there will be a total substitution of State and local and private contributions where it was partially Federal last year?

Mr. PETERSON. In the real world I wouldn't expect complete, but I would expect some substitution of State and local contributions.

Senator McCLURE. Well, it has to be almost complete when you have zero in the budget.

Mr. PETERSON. It would either have to be that or it wouldn't be done, correct.

Senator McCLURE. Yes.

MAJOR DISEASE OUTBREAKS

What is the outlook for major disease outbreaks this year; for example, major rust or canker's disease?

Mr. SCHACHT. We have worked with about three or four major diseases. Fusiform rust, western conifer root disease, and dwarf mistletoe are three of the major ones. We are expecting some infestation in each of those categories.

We have been working on dwarf mistletoe extensively for several years, and I expect that we will have continued outbreaks in dwarf mistletoe.

We have been experiencing some additional root disease on western conifers that we will probably be looking at more intensely in the coming year or two.

Senator McCLURE. In 1983, you carried out suppression activities on 1,343,000 acres.

How many acres do you expect to be treated during 1984, fiscal 1984?

Mr. SCHACHT. That figure is around 300,000 acres that we will be treating in—

Senator McCLURE. For fiscal 1984?

Mr. SCHACHT. Excuse me. That was 1985.

Senator McCLURE. Yes.

Mr. SCHACHT. For 1984, about 1½ million acres.

Senator McCLURE. And 300,000 under the budget submission for 1985?

Mr. SCHACHT. Right.

Senator McCLURE. And again I assume that the 1.2 million acres, whatever the difference might be, you expect either will go untreated or somebody else will take care of it, is that correct?

Mr. PETERSON. That is correct.

Senator McCLURE. One specific area of questioning. For the last 2 years we directed work on a dwarf mistletoe project in the Sawtooth National Forest.

Could you tell me what the status of that project is?

Mr. PETERSON. I cannot, Mr. Chairman. I know that we have developed some fairly effective control mechanisms for dwarf mistletoe which involves several culture treatments in several locations. We will have to get you the specific information on Sawtooth.

Senator McCLURE. If you would do that, please.

Mr. PETERSON. Yes, sir.

[The information follows:]

STATUS OF DWARF MISTLETOE PROJECT ON THE SAWTOOTH NATIONAL FOREST

Almost all of the dwarf mistletoe suppression on the Sawtooth National Forest during the last 3 years has taken place on the Ketchum, Twin Falls, and Fairfield ranger districts.

The two primary suppression activities carried out were (1) presuppression surveys and (2) removal of dwarf mistletoe-infected trees. Forest pest management [FPM] funds were used to accomplish the presuppression surveys which identify the precise acres to be treated. Suppression is accomplished whenever possible as an integral part of planned timber sales and followup timber stand improvement work using deposited funds. FPM funds are used for suppression in some cases where residual timber values are not sufficient to fund all of the necessary work.

Most of the FPM dwarf mistletoe suppression funding during the past 3 years on the Sawtooth National Forest has been invested in the Bald Mountain ski area on the Ketchum ranger district. The situation on Bald Mountain has been the subject of intense study by a wide range of Forest Service, Bureau of Land Management, and Sun Valley Co. specialists. Studies conducted in the late 1960's of potential commercial timber sales in the adjoining and surrounding areas, identifies many areas with heavy dwarf mistletoe infections. In the midseventies, the Sun Valley Co. developed a master plan for the future development of Bald Mountain. In the spring of 1976, the Ketchum ranger district prepared an environmental analysis of this proposal which pointed out the poor condition of the timber.

A 1978 general forest management review indicated that a complete vegetation management plan for Bald Mountain was necessary and a preliminary plan was drafted in

1979. Forest pest management conducted a study on the mountain in late 1980. This study identified the locations and scope of the insect and disease problems on the mountain, as well as suggestions for treating them. During the next 2 years, an interdisciplinary Forest Service team continued to refine the 1979 preliminary plan. In February 1983, a final Bald Mountain vegetative management plan was completed. The primary objective of this plan is to manage forest vegetation by improving stand vigor.

In 1981 and 1983, detailed dwarf mistletoe type, location, and intensity information was collected from the Bald Mountain area. During the summer of 1983, a project crew of 14 Forest Service employees removed trees heavily infected with dwarf mistletoe from about 40 acres. The Sun Valley Co. purchased 500 cords of the firewood resulting from the logging operations. Additional firewood was also sold to the general public. Unusable material not suitable for firewood was burned.

The following table shows dwarf mistletoe suppression/presuppression accomplishments and costs on the Sawtooth National Forest for fiscal years 1981-83 and estimated 1984:

SAWTOOTH NATIONAL FOREST DWARF MISTLETOE SUPPRESSION/PRESUPPRESSION
ACTIVITIES

Fiscal year:	Suppression acres	Presuppression acres	Expenditures
1981.....	160	13,280	\$36,939
1982.....	0	500	10,800
1983.....	69	1,200	43,200
1984 (estimate)	100	30,000

MINERALS AREA MANAGEMENT PROGRAM

Senator McCLURE. In the minerals area, you are proposing an increase of \$3,062,000, or up 12 percent, for the Minerals Area Management Program for fiscal year 1985. The major increase of \$2,005,000 is programmed for leasable minerals, and another increase of \$1,021,000 is programmed for common variety minerals.

Are these increases proposed to keep up with the applications to explore and develop resources on Forest Service lands, or are these increases needed to monitor mining operations already underway?

Mr. PETERSON. They would cover both. We expect that with an improving economy, that we would find a lot more interest both in new applications as well as activity on already issued leases. So, we expect both categories to increase next year.

Senator McCLURE. On page 112, you state that the need for increased funding is the result of a shift to higher cost operating plan proposals and administrative operating plans, and yet also on page 112 that more applications and operating plans will be processed in 1985 than 1984.

I am really trying to see if the additional funding requested for fiscal year 1985 is going to be sufficient to keep up with the workload or if the increase is required simply to handle the more complex cases.

Mr. PETERSON. It really is a combination of the two. We expect the budget request would allow us to process applications received next year and end the year with less backlog than we started the year with.

Senator McCLURE. Does the cost of handling this vary by commodity? In other words, is there a difference between oil and coal, geothermal and gas, and so on?

Mr. PETERSON. We have not been able to categorize them that well. We know of types. For example, if you have a geothermal proposal that involves a massive development, that can be quite costly. On the other hand, you might have a fairly small one. You might have one oil well in Louisiana that is very cheap, but you might have one proposal in the mountains of Idaho that would be very expensive.

We haven't been able to see that much difference by commodity. It depends more on where it is and how big the development is.

Senator McCLURE. How many applications do you have for oil and gas activities that are older than 90 days?

Mr. PETERSON. We have about 3,700 oil and gas applications over 90 days old, and about 60 percent of those cannot be acted upon because of the fiscal 1984 appropriations rider that says we couldn't handle certain applications.

Senator McCLURE. So other than those, there would be 40 percent of 3,700?

Mr. PETERSON. There would be about 1,400, I believe.

Senator McCLURE. How many applications for geothermal do you have that are more than 90 days old?

Mr. PETERSON. We have about 600 geothermal applications that are over 90 days old, and 82 percent of these are in areas that can't be acted on because they are either in appeals on land management plans or in special management areas that are being held according to the appropriations act.

The bulk of those are in that category, and many of those, as forest plans now come on-line, we will be able to act on.

Senator McCLURE. What percentage of cases do you handle within 90 days?

Mr. PETERSON. We handle about 60 percent of the cases within 90 days.

Senator McCLURE. How long does a request have to be pending before you consider it to be a backlog?

Mr. PETERSON. Well, we have defined a backlog for different categories. For example, if it is a lease proposal which is covered by an existing environmental document, like a land management plan which provided environmental analysis, we consider it a backlog if we have not responded within 60 days.

For leasing that requires an environmental statement which may be tied to a land management plan, we pick it up at the time the environmental document is filed and then count 60 days.

For operating plans which are already leased, we consider it a backlog if we haven't handled it within 1 month. We try to handle those quicker.

Senator McCLURE. Could you prepare for the record a workload table showing start and end of year balances and accomplishments during the year by program?

Mr. PETERSON. We will be happy to do that, yes, sir.

Senator McCLURE. Thank you.

Could you do that for each of the last 5 years?

Mr. PETERSON. Yes; we have that.

Senator McCLURE. Thank you.

[The information follows:]

MINERALS

The following workload table is for the total Minerals Program. The data structure on accomplishments does not allow separation of the information by leasable, locatable, and common variety minerals. The unprocessed cases at the start of the year and inventory at the end of the year are primarily in the leasable program.

	1980 actual	1981 actual	1982 actual	1983 actual	1984 actual	1985 estimate
Unprocessed cases, start of year..	5,740	7,301	5,201	7,200	4,400	6,022
Cases completed	21,508	25,061	29,405	30,335	20,378	21,332
Inventory, end of year ¹	7,301	5,201	7,200	4,400	6,022	5,690

¹Figures for fiscal year 1983-85 include unprocessed cases affected by prohibitions in section 308 of the fiscal year 1983 and fiscal year 1984 appropriation acts.

MINERALS SURVEYS

Senator McCLURE. What level of activity is the U.S. Geological Survey and the Bureau of Mines proposing this year for mineral surveys on Forest Service wilderness and further study lands?

Mr. PETERSON. To begin with, in fiscal 1984, USGS and the Bureau of Mines plans to complete the reports to meet the requirements of the 1964 Wilderness Act on the last of the 154 national forests. Then, they would work on about 300,000 acres of high priority national forest land in 1984 and 300,000 acres in fiscal 1985.

We have given USGS and the Bureau of Mines a list of high priority roadless areas on the national forest system within which to focus their effort for each year between now and 1990.

Senator McCLURE. How did you choose the high priority?

Mr. PETERSON. We chose, first, areas that had fairly high mineral potential. For example, we have developed a list of acres based on mineral potential, we obtained from industry. We have provided the information to USGS and the Bureau of Mines. And if we have an area, say in further planning where we are trying to make a decision as part of the forest plan, we try to get minerals information for that specific area because we can't just scatter the shots.

Senator McCLURE. What is the equivalent program level for BLM?

Mr. PETERSON. I believe that in 1984 they have about 2.6 million acres of new starts and 2.3 million in 1985, and they are completing studies of about 700,000 in 1984 and 2.6 million in 1985. Then they have some third-year reports underway.

Senator McCLURE. Why is BLM's program being emphasized by USGS and the Bureau of Mines while the Forest Service Program is not?

Mr. PETERSON. I think the primary reason is that there is a statutory deadline in the Federal Land Management Policy Act to complete this

activity on BLM lands, and there had not been very much done on BLM lands until recently.

Senator McCLURE. There is a statutory deadline, but they tell us that they are going to beat that statutory deadline.

Mr. PETERSON. I believe that is correct because they are trying to complete the wilderness studies earlier.

Senator McCLURE. And you are not?

Mr. PETERSON. Since 1964 they have been working on some national forest lands. In all fairness, they have developed a lot more information on national forest lands than on BLM.

We would, of course, like to see more minerals information that we could use in connection with the current round of forest planning. Lacking that, we will either have to use the best information we have or we will have to use it in the next round of planning.

Senator McCLURE. You have identified 400,000 acres in one year, 300,000 acres in another year of high priority areas.

Mr. PETERSON. That is right.

Senator McCLURE. How does that compare to the acreage needs? How much of it are you reaching?

Mr. PETERSON. If Congress resolves the roadless area question, which I am hopeful it will, then we will have a new number because we won't have to work on quite a few areas.

My best guess is that we probably would need about 1 million acres a year to have adequate information for the next round of forest plans.

Senator McCLURE. But that is assuming that Congress resolves the wilderness issue, and all you have to work on then is the next round of forest management plans?

Mr. PETERSON. That is correct, yes.

Senator McCLURE. If you don't have that, the need is much larger under existing statutes?

Mr. PETERSON. Yes; that is correct. Time, of course, is very short now in the real world, because we essentially need to complete that planning process next year and the following year.

Senator McCLURE. By 1991, I think your estimate is that you have 450 areas to evaluate, a total of 6.7 million acres?

Mr. PETERSON. Yes.

Senator McCLURE. Is that where you get about 1 million acres per year?

Mr. PETERSON. About 1 million acres per year, yes.

Senator McCLURE. And if you start out at 300,000, 400,000, you start out falling behind?

Mr. PETERSON. That is correct.

TREE MEASUREMENT

Senator McCLURE. Before we talk about the actual Sales Program proposed for fiscal year 1985, we should clarify what you mean when you say on page 146 that in 1985 national direction will be developed for both a tree measurement system and a transaction evidence analysis system.

I would ask how you intend to proceed with either of those initiatives without committee approval.

Mr. PETERSON. Mr. Chairman, I think we discussed this subject last year when it was first debated on the House side.

Senator McCLURE. Well, in 1983 the committee's report had extensive direction from the Forest Service concerning most of these items. And the fiscal year 1984 conference report further directed that committee approval be secured prior to expanding or continuing the TEA test.

Mr. PETERSON. We will do that before we extend the job beyond where we are now.

Senator McCLURE. It would not be your intention to go beyond committee direction?

Mr. PETERSON. No, sir.

SALES ADMINISTRATION

Senator McCLURE. You projected that the increased cost of \$15,956,000, or a 40-percent increase, for sales administration activities in fiscal year 1985. The 1983 cost was \$32.8 million with a harvest level of 9.2 billion board feet. The 1984 cost is estimated at \$45.1 million with a harvest level of 10 billion board feet. For 1985 we have estimated a cost of \$62.3 million, with a harvest level of 11.2 billion board feet.

That sounds like an almost unbelievable cost increase.

You state on page 149 that the additional funding is responsive to the increased complexity of administering contracts that have had 5 to 7 years additional extensions administering contract defaults, appeals, and lawsuits. How much of the 11.2 billion board feet anticipated to be harvested for fiscal year 1985 will be affected by defaulted contracts, or affected in other ways by appeals or from lawsuits.

Mr. PETERSON. We don't really know how much of the harvest would be from defaulted contracts. Our best estimate is that approximately 200 to 400 million would be defaulted and we would be reoffering that volume.

What I am trying to say here is, there is going to be a tremendous amount of activity this year or next year if we extend all those contracts.

Senator McCLURE. You reappraise and remark in connection with default or terminated contracts.

Mr. PETERSON. If it was necessary in order to prescribe what is needed to be done.

Senator McCLURE. Does that call for a 40-percent increase?

Mr. PETERSON. A part of that is the increase in harvest.

Senator McCLURE. Increase in harvest level, but your estimates?

Mr. CROWELL. Reappraisals have to be done to keep making extensions or to establish damages on defaulted sales. [Inaudible.]

Senator McCLURE. Could you provide for the record how much you expect to fall into each of those categories of costs?

Mr. CROWELL. We could give you that information.

[The information follows:]

HARVEST ADMINISTRATION

Increases in harvest administration from fiscal year 1984 to fiscal year 1985 are due to a number of factors. The major reasons follow:

Harvest has increased 12 to 17 percent.

Number of sales are expected to continue increasing. Sales for fiscal year 1982 were 143,723; fiscal year 1983, 235,585; fiscal year 1984, estimate 300,000; and fiscal year 1985, estimate 320,000.

Helistat funding is increased 24 percent from fiscal year 1984 to fiscal year 1985. The fiscal year 1985 estimate is \$5.7 million.

Increased complexity of timber sale administration, especially the activity associated with defaulted timber sales and the reoffering of defaulted volume. Estimated cost of reoffering defaulted timber sales of 200 to 400 million board feet is \$1 million.

Demand for miscellaneous products such as fuelwood, posts, poles, Christmas trees, et cetera, continue to increase. Sold personal use fuelwood cost estimate in fiscal year 1985 is \$3.65 million and the free-use cost estimate is \$3.5 million.

FIREWOOD SALES

Senator McCLURE. You actually had 140,000 sales in 1982. In 1983 you had 235,000. Isn't that a rather large increase, year over year? Can you explain why?

Mr. PETERSON. Yes; that reflects the year we went to charging for firewood sales, instead of issuing free-use permits.

Senator McCLURE. But, those firewood sales are included in that? Can you provide, for the record, the number of those sales that were firewood sales?

Mr. PETERSON. Yes, sir.

[The information follows:]

FIREWOOD SALES

Of the 140,000 sales sold in 1982 about 115,000 were for firewood. With a service-wide change over to selling firewood generally in place of free use, firewood sales increased by 85,000 sales for a total of 200,000. Of the other 35,000 sales in 1983, about 10,000 were timber sales and 25,000 sales were in miscellaneous timber products such as posts and poles.

REVENUES DERIVED FROM FIREWOOD SALES

Senator McCLURE. Could you also provide for the record the revenues derived from the administration of those sales, as well as the cost of administering those sales?

Mr. PETERSON. Yes, sir.

[The information follows:]

REVENUES DERIVED FROM FIREWOOD SALES

The revenue from firewood sales for 1983 was \$4.2 million. The Charge Firewood Program began in mid-fiscal year 1983. Therefore, the revenue for 1984 should be higher as it will include more volume under charge and less under free use. The administration cost in 1983 for the 200,000 firewood sales and 340,000 free-use firewood permits was \$5.3 million.

SALES PREPARATION

Senator McCLURE. The sales preparation budget has proposed for a reduction of \$8,890,000 or 6 percent below the 1985 base program. On the basis the Forest Service will prepare 500 million board feet less in fiscal year 1985 than in fiscal year 1984. Does a reduction of this size limit our ability to offer programs of adequate size in future years?

Mr. PETERSON. Certainly several years of offering, say, 11.2 billion board feet and having the work force geared to that level, means you can't make a jump.

Senator McCLURE. Doesn't this imply some difficulty for the people then?

Mr. PETERSON. If markets should increase, we would have to obtain additional staff or services to increase sales levels.

Senator McCLURE. And if that happens it will inevitably cost more.

Mr. PETERSON. Yes; although right now with the tremendous amount that we have under contract, we don't have that problem.

Senator McCLURE. You don't have that problem right now?

Mr. PETERSON. Correct.

Senator McCLURE. I understand that.

Mr. PETERSON. Except I would submit in some local situations you could have the problem in spite of the amount that's under contract.

TIMBER CONTRACT EXTENSIONS

Senator McCLURE. As I understand it, as of February 15, 1984, 460 purchasers have submitted for approval 523 extension plans covering 1974 timber sales. Many of these purchasers of region 6 timber have additional time to file their plans. How many sales and purchasers do we know of who were eligible to file for extensions but chose not to do so?

Mr. PETERSON. There are about 5,100 sales held by 1,200 purchasers in region 6. There have been 162 extension plans for timber filed by 144 purchasers in that region. These plans include 957 sales with 8.7 billion board feet. Therefore, about 1,055 region 6 purchasers have not participated in the Extension Program, and there are about 4,145 sales not included in the extension plan. That amounts to about 55 percent of the uncut volume under contract in that region which has not been included in extension plans, and that's because of the lawsuit.

Senator McCLURE. Because of what?

Mr. PETERSON. Because of the North Side lawsuit, which the judge gave additional time to file those plans.

Senator McCLURE. Now, if the lawsuit gives them additional time, do we expect that they will file?

Mr. PETERSON. Well, I would expect the bulk of them will. Included in that 55 percent, of course, is some uncut volume that people plan to operate under current plans.

Senator McCLURE. Do you know how much?

Mr. PETERSON. We don't know.

Senator McCLURE. Do you have any estimate?

Mr. PETERSON. I think we estimated it at between 40 and 45 percent of region 6's volume would come on line, of this remaining.

Mr. LEONARD. Mr. Chairman, we have had very little indication of purchasers who will be eligible when the lawsuit is resolved or purchasers who have chosen not to take part.

Senator McCLURE. Would you state your name for the record?

Mr. LEONARD. George Leonard, Mr. Chairman.

Senator McCLURE. Oh, George Leonard. Thank you.

Mr. PETERSON. I am sorry, Mr. Chairman.

Senator McCLURE. Can you provide for us a schedule of dates outlining the major milestones in the Extension Program?

Mr. PETERSON. There are no remaining milestones really. The plans for those who are eligible were filed, and the ones that remained would depend on what the court does in its time.

Senator McCLURE. Do we have a trial date?

Mr. PETERSON. Yes; the *North Side* oral argument is June 26. Then there will be additional time, probably sometime this fall at the earliest, before we have a decision.

Senator McCLURE. Is that the only deadline that remains?

Mr. LEONARD. That oral argument date I think is the appellate court argument.

Mr. PETERSON. That's right.

Mr. LEONARD. Until that's resolved, we don't anticipate there will be any activity in trial court. It will be probably after this operating season that the *North Side* case at the district court level will again become active.

APPLICATION OF HERBICIDES

Senator McCLURE. Let's turn for a moment to herbicides. How long will it take the Forest Service to prepare adequate NEPA documents for application of herbicides?

Mr. PETERSON. I wish I knew the answer to that question, Mr. Chairman, because the NEPA documents that relate to the worst-case analysis that have been filed with the court so far have not met with the court's approval. We have one currently, the gypsy moth EIS, which includes a worst-case analysis, and the risk assessment is currently before a court. If the court should find that one is satisfactory, then we would have some clue as to what would be necessary.

We, of course, have asked for the ninth circuit court to reconsider the circuit court decision.

Senator McCLURE. Will each forest plan need to consider worst-case analyses?

Mr. PETERSON. We hope not, but we have on appeal a proposal that should include worst-case. There has been no litigation on the subject.

Senator McCLURE. If the worst-case analysis were required on each forest plan, would that mean that all of the new NFMA land management plans prepared to date need to be revised?

Mr. PETERSON. I don't believe so, because the forest land management plan is a programmatic statement covering an entire forest. We would at least argue that a worst-case certainly has to relate to something specific. You can't make a worst-case on a whole forest plan. There are several billion scenarios that you could conjure up.

Senator McCLURE. If the herbicide application within that forest plan is not that central to the management of that forest, it would be deemed as a substantial change in the forest management plan? Is that what you're saying?

Mr. PETERSON. That's what we would hope. We would hope to say that when we do a herbicide case, if we have to do a worst-case, that's the point to look at.

Senator McCLURE. If that's what you're going to argue. But are you hopeful that the court will agree with you?

Mr. PETERSON. We always have hope, Mr. Chairman.

Senator McCLURE. I know that. I shouldn't have asked it that way. Do you expect the court to agree with you?

Mr. PETERSON. I believe there is a good chance it would, in that case, because we must assume there is some reason.

Senator McCLURE. That isn't the worst-case analysis for the judges. [Laughter.]

Mr. PETERSON. I hope not.

Senator McCLURE. What's the next key date in the herbicide case?

Mr. PETERSON. There's a request by the Department of Justice, I believe it's a rehearing en banc, if that's the proper term, where you ask all the judges in that circuit to look at it. That request is pending before the circuit court and there has not been any action taken. After the decision of the circuit is made, then the question would be whether it would go to the Supreme Court.

In the meantime, we have done some work on what a worst-case analysis might look like. In fact, we've used a consultant to help do that, as we did in the gypsy moth case. We simply can't wait on the outcome of the court decisions to decide how to proceed on operation of the program. We have to make that judgment when we know what that court says.

Senator McCLURE. You are talking about making a revision without in advance knowing what the ultimate outcome of the case will be.

Mr. PETERSON. Well, we're putting some information together so we could move in that direction if that—in a California case, where we know that we need to do some things and we simply couldn't wait several years.

Senator McCLURE. What happens to programs, primarily reforestation, if the injunction is not lifted?

Mr. PETERSON. In some cases we will have to make a judgment over whether we can do it by hand effectively, what the costs might be. In some cases it simply means that plantations will sit there in a struggle, and it maybe a losing struggle, with brush, because it's not feasible to go in and take out the brush. There's a whole variety of those kinds of things.

Senator McCLURE. Have you looked at the effectiveness of hand treatment?

Mr. PETERSON. We sure have. In fact, we use a variety of hand treatment now.

The problem that I think hasn't been adequately understood with hand treatment is that if you have cut off some types of brush, as you probably know from pruning things at your own house, cutting off some things might mean that they will be the same height next year. So, you have to, in effect, do it each year on some kinds of brush. We evaluate those kinds of alternatives each time we're looking at a situation.

INVESTIGATIVE REPORT ON TIMBER

Senator McCLURE. We understand that the survey and investigation staff of the House Committee on Appropriations has conducted another review of the Forest Service Timber Program, focusing on questions such as appraisal techniques on purchaser road credits, both effective and ineffective, on deficit sales on the question of the Forest Service receiving fair market value for Forest Service timber.

Can you summarize their major findings for us and how you would respond to those conclusions?

Mr. PETERSON. The staff continues to believe that we should be making broader use of transaction evidence in tree measurement. I am not entirely sure why, after reading the report, because we agree with the staff that in some places, tree measurement, for example, makes very good sense. We do it in our two eastern regions, where you're dealing with primarily the same kind of trees, where you can make a reasonably reliable estimate, and you've got an outside market that you can relate it to.

We don't disagree with them that tree measurement, for example, is a valid system. But, saying that we should expand that nationwide, we simply disagree based on the facts of the situation.

We're also using transaction evidence in some places where you have an adequate market or logs where you have reasonably uniform trees, that system works quite well, too.

We agree with some parts of the report in terms of where we're using it, it does work. But, that's the reason it works, is because we've been careful where we've used it.

Mr. Leonard can give you lots more information on that if you need it. I know you're short on time.

ROAD CREDITS

Senator McCLURE. How about deficits or road credits?

Mr. PETERSON. Both effective and ineffective. I think they finally understand that reasonably well, except we disagree with their conclusion that the Government somehow loses a lot of money if in bidding the so-called deficit disappears. In fact, Mr. Chairman, I think maybe we've created something by the term deficit sales that is conveying a misin-

terpretation to the public in general. A deficit sale doesn't mean it's deficit at all. The Government always gets the money from that sale because we have base rates. A deficit sale, under the technical definition, means that a sale is appraised at not providing the normal profit opportunity to a purchaser of average efficiency in today's market.

Now, a purchaser looking at that who might be more efficient, who also has good markets, might well say that's a perfectly valid sale and do in fact bid on it. It removes that theoretical deficit.

Senator McCLURE. Would you repeat your first statement? "The Government always gets its money"?

Mr. PETERSON. The Government always gets some money out of a sale, yes, sir.

Senator McCLURE. Gets some money out of a sale.

Mr. PETERSON. Yes; because we have base rates.

Senator McCLURE. So it's not a deficit to the Government and it's not a deficit to the purchaser, in many cases, but it's still called a deficit sale. That's a real problem in understanding.

Senator McCLURE. Because it's a deficit against an estimate.

Mr. PETERSON. It's a deficit against an estimate. It's a less-than-normal profit opportunity, is what it really is.

TRANSACTION EVIDENCE

Senator McCLURE. What do they conclude in that review with respect to whether or not the Forest Service receives fair market value for Forest Service timber?

Mr. PETERSON. They make a case in part of the report that we would get closer to the fair market value if we used transaction evidence because that's more reflective of today's market.

The problem with doing that in many places is there is no other market other than the Forest Service, so we would, in essence, be tracking ourselves. That's the reason we went to lumber and plywood where it's an arm's-length transaction, which is also another kind of transaction evidence. We are continuing to look at situations where sales almost all the time are considerably above the appraisal to ask ourselves a question, are appraisals giving a price which is hypothetical and is not reflective of the current market. That's what we mentioned we will discuss with you later.

REFORESTATION BACKLOG

Senator McCLURE. Your fiscal year 1985 reforestation budget for appropriated funds or reforestation trust fund funds totals \$44,219,000, an increase of \$505,000 over fiscal 1984 appropriations to date, but a decrease of 50 percent from the fiscal year 1983 actual program.

What's the current rate of increase of acres that need to be reforested through appropriated funds?

Mr. PETERSON. The budget request of 134,000 acres in appropriated funds, plus an additional 216,000 acres in Knudsen-Vanderburg, deposited funds, is almost at the rate needed to keep up with additional

reforestation. It's very close. Technically, if we kept up with allowable harvest needs and so on, on all the forest, we would need to be just slightly higher. But in any one year that won't affect the long-term outlook.

Senator McCLURE. So it's a hold-your-own position?

Mr. PETERSON. Holding the long-term situation—

Senator McCLURE. But it doesn't gain on the backlog?

Mr. PETERSON. We will essentially complete the backlog in 1985. That's the initial backlog.

Senator McCLURE. Even with these figures?

Mr. PETERSON. Even with these figures. All of the feasible backlog. Now, there was some of the backlog that was in inaccessible areas or other things that won't be completed. We will have a current amount of reforestation of about 1 million acres at any one point in time, which is areas recently harvested, new forest land, plantation failures and those type things. That will be a rolling number of somewhere around 1 million acres.

Senator McCLURE. If I recall correctly, the reforestation trust fund required the obligation of at least \$104 million in fiscal year 1983. Was that much obligated?

Mr. PETERSON. Not entirely. We did allocate all those funds to the region. Because of the lateness in receiving those funds, and weather problems, we did not obligate \$17 million of that. Part of that problem also was simply having the right trees in the right location to get the reforestation job done.

Senator McCLURE. Will it all be obligated?

Mr. PETERSON. Yes; it will.

Senator McCLURE. As I read the Chief's annual report, as of October 1, 1983, you had about 500,000 acres of site class 85 cubic feet per year or greater that needed reforestation and about 600,000 acres of site class 85 or greater that needed timber stand improvement. Your fiscal year 1985 budget requests funding to reforest 134,000 acres and to treat 187,000 acres.

Would it be fair to say that additional funding for these programs could be placed on these highly productive lands?

Mr. PETERSON. We have in the past and we have continued to give emphasis to the highest sites, most productive sites, first. In any location where you're doing reforestation you have a mixture, though, of site classes. The ridge might be a lower site class than an area that has deeper soils and so on. It's not possible to place all of the acreage on just those high sites, because you would end up with patches in the middle and so on.

Senator McCLURE. You mean that the estimate from the Chief's annual report is misleading?

Mr. PETERSON. No; it's correct, but I am saying that if you went out to reforest 80 acres in Idaho, that 80 acres is probably going to have several different site classes on that 80 acres.

Senator McCLURE. But there were, am I not correct, in your annual report of October 1, 1983, 500,000 acres that need reforestation and 600,000 acres that need timber stand improvement in these highly productive classes?

Mr. PETERSON. That's correct.

Senator McCLURE. And yet although that totals 1,100,000 acres, you plan to actually treat 187,000 acres and reforest 134,000 acres; is that correct?

Mr. PETERSON. If you add both the appropriated funds and the KV funds together, you get a total of about 400,000 acres. That amounts to just about what we can do with present nursery capacity and so on in any one year. It can be increased slightly but you can't—

Senator McCLURE. Because I total those to 321,000 acres.

Mr. PETERSON. Yes.

Senator McCLURE. Oh, you're looking at KV also.

Mr. PETERSON. Yes; looking at KV also.

Senator McCLURE. And that's the optimal level for nursery capacity?

Mr. PETERSON. That's the nursery capacity as of now that we have to handle next year's reforestation situation.

Senator McCLURE. If you had additional funds, you don't have nursery stock?

Mr. PETERSON. We don't have it today. Right now, if you're going to grow a 2-year-old tree, it's already got to be in the ground.

Senator McCLURE. That's right. Why then are you proposing to get into a program where you can make surplus trees available?

Mr. PETERSON. We're not proposing to get into such a program. We're proposing that in 1 year, if we actually do have surplus trees, which can happen because a site that you plan to plant trees on might not be available because of a herbicide ban or something else—

Senator McCLURE. Or because Congress cuts your funds.

Mr. PETERSON. Right.

Senator McCLURE. Or because you planted too many seeds.

Mr. PETERSON. That's right.

Senator McCLURE. Or because they grew too well.

Mr. PETERSON. Or the harvest rate is less than we predicted. We always do put a few more trees in than we expect because you have some mortality, too.

When we show up with, say, 1 million trees that are surplus out of 150 to 160 million capacity, that's a very small number in terms of percentage, although that may be a lot of trees in one location.

Senator McCLURE. Are you saying that if we provided additional funding, you couldn't spend it?

Mr. PETERSON. We could spend a slight amount more, but not very much more, because of nursery capacity.

Senator McCLURE. And if we want you to spend more, we ought to direct you to plant more this year so that 3 years from now you could plant more?

Mr. PETERSON. Mr. Chairman, I have said on numerous occasions, it would be very helpful if we knew what our program was going to be for the next 3 or 4 years so we could gear nursery capacity to it.

Senator McCLURE. Yes, sir; and you know I am receptive to that thought.

Mr. PETERSON. I know. Right.

Senator McCLURE. What happens to your KV and appropriated Re-forestation Program if the herbicide ban continues?

Mr. PETERSON. In some cases they will be able to work at much higher costs. In some cases we're going to have to take another look at what we've been trying to do.

Senator McCLURE. Your work is limited by the appropriated dollars, isn't it?

Mr. PETERSON. That's correct.

Senator McCLURE. And it's responsible for the limited scope of your work?

Mr. PETERSON. Right.

ADDITIONAL COMMITTEE QUESTIONS

Senator McCLURE. The bell tells me that I have to go to the floor to vote, but I think I am near enough to the end of the questions that I have that I would rather not ask you to remain until I get back. I will submit the balance of the questions for a response in writing.

Mr. Peterson, and Mr. Secretary, thank you very much for your testimony. I very much appreciate your willingness to come and respond to these questions as fully as you have. And we certainly share some mutual problems with respect to the stability of funding.

Mr. PETERSON. Thank you, Mr. Chairman.

Senator McCLURE. Good management of natural resources demands long-term management, not stop-go management. That's one of the hardest things for us to do, and one of the hardest things for you, I know.

Thank you.

Mr. PETERSON. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

FOREST RESEARCH

Timber Management Research

You are proposing a reduction of \$2,225,000 (-10%) in the trees and timber management research program (p.38). Projects to be affected include low-quality hardwood management in Tennessee, genetics of northeast trees, silviculture of oak-hickory forest ecosystems in Missouri, genetics of trees in interior Alaska, selection strategies for superior southern pines, reforestation problems in Oregon, and management of West Coast conifers. At least you are spreading the reductions around the country. The reduction of \$2,225,000 in trees and timber management research is the largest reduction in the research budget, and it affects the area of research most directly identifiable with Forest Service management responsibilities.

1. Question: Why is the program area proposed for such a large reduction?

Answer: Timber management research programs proposed in the President's 1985 Budget were decided upon after a review of all Forest Service research programs, nationwide. Decisions about program changes were guided by the criteria and considerations listed on page 19 of the Explanatory Notes. The proposed reduction of \$2,225,000 in the timber management research program includes projects which can be delayed or postponed, or projects which are nearing completion. It should also be noted that this line item is funded at about the same level as Forest Insect and Disease Research. They each receive about 20 percent of total research funding and received the two largest reductions because they offer the most opportunities for delay or postponement of projects.

While we can understand that individual research projects are eventually concluded and that funding could be reduced without affecting these projects, we also know that each research area has new questions that need study.

2. Question: Where would the trees and timber management research area fit in overall priorities for increased research funding?

Answer: Timber management research programs are high in overall research priority.

Watershed Management & Rehabilitation Research

You are proposing a reduction of \$1,367,000 in the forest watershed management and rehabilitation research program (-12%) (p.53).

3. Question: How much of the base program of \$11,367,000 is related to timbering activities?

Answer: About 40 percent of the FY 1985 base relates to timbering activity. This research includes water quality and yield relating to various harvesting systems and their associated road systems, and to the effects of silvicultural practices.

4. Question: To minerals activities?

Answer: About 15 percent of the FY 1985 base support minerals management activities. This research includes development of methods to hasten mined land restoration to desirable uses.

5. Question: To acid rain related research?

Answer: Approximately 12 percent of the FY 1985 base for Watershed Management Research supports acid rain research, which includes monitoring and studies on aquatic and terrestrial effects.

6. Question: Are any of these activities increased in the FY 1985 budget?

Answer: There are no program increases in this budget line item; however, the FY 1985 budget includes a \$500,000 increase in acid rain research in other Research budget line items.

Wildlife, Range, and Fish Habitat Research

You are proposing a reduction of \$890,000 (-10%) in the wildlife, range, and fish habitat research program (p.58).

7. Question: How much of that reduction will be in the wildlife area?

Answer: The reduction in the wildlife area totals \$505,000.

8. Question: The range area?

Answer: The reduction in the range area totals \$340,000.

9. Question: The fish habitat area?

Answer: The reduction in the fish habitat area totals \$45,000.

10. Question: How much would it cost to keep the Range Evaluation program on schedule in 1985?

Answer: The Oregon Range Evaluation Program was originally scheduled for completion in FY 1986 with a planned expenditure of \$590,000 in FY 1985. A revised schedule was developed which will allow for completion of the program in FY 1985 at a cost of \$374,000.

11. Question: How much longer is the Range Evaluation project scheduled to run and what are its outputs and costs each year from 1984 to conclusion?

Answer: In FY 1984, \$524,000 will allow evaluation of six base level outputs: herbage and browse, water quantity, water quality, storm runoff, economic cost-accounting, and economic impacts. The 1985 President's Budget of \$374,000 will provide for an orderly phase out of data collection, evaluation of existing outputs and termination of the project.

12. Question: How much research is underway on range and grazing problems?

Answer: Range research is currently conducted at 12 locations and funded at \$2.3 million in FY 1984. In addition, about \$9.8 million was requested in the FY 1985 budget for range related research and technology transfer for the USDA Science and Education Agencies.

13. Question: Are any of them intended to help increase grazing capacity or to improve overall range condition?

Answer: Range research at all locations is directly or indirectly related to increasing forage production, improving range condition, and reducing conflicts between rangeland uses.

14. Question: How much research is underway on endangered species? Please provide a list for the record by species, work unit and location.

Answer: A total of \$600,000 is allocated to endangered species research in FY 1984 at the following locations:

<u>Work Unit</u>	<u>Location</u>	<u>Species Focus</u>
PSW-1754	Arcata, California	Endangered Birds of Hawaii
SE-1702	Clemson, South Carolina	Red-cockaded Woodpecker
SO-1152	Rio Piedras, Puerto Rico	Puerto Rican Parrot
RM-1753	Tempe, Arizona	Endangered Trout and Bald Eagle
NC-1702	St. Paul, Minnesota	Timber Wolf and Kirkland's Warbler

15. Question: How much research is underway on anadromous fish research?

Answer: About \$770,000 is being directed to anadromous fish research during FY 1984. During FY 1985, the program will be reduced by \$78,000. The reduction will delay work at Juneau, Alaska, and Arcata, California.

16. Question: What is the highest priority area for additional anadromous fish research?

Answer: High priority anadromous fish research includes study of impacts and processes of habitat change relating to grazing and timber management activities, and determination of anadromous fish habitat requirements.

17. Question: What are its likely pay offs?

Answer: Land managers need to be able to predict the effect of land management on anadromous fish habitat, and thus, be able to mitigate negative impacts, enhance positive impacts, protect high quality fish habitat, and integrate anadromous fish production with management for other land uses.

Forest Products and Harvesting Research

You are proposing an increase of \$77,000 in the forest products and harvesting research program (p.62).

18. Question: What will the increase be used for (p. 67)?

Answer: The FY 1985 President's budget will continue the FY 1984 program level. This increase will be spread across all forest products and harvesting research programs, nationwide, to cover increased costs of salary and benefits, travel, supplies, rent, and other services.

STATE AND PRIVATE FORESTRY

Allocation of Funds Among States

Another issue that we've wrestled with in the past three years concerns the Forest Service's allocation of State and Private grant funds to individual States. For example, we can't tell if there is a strict relationship between fire protection needs and the distribution of fire grants money.

19. Question: Could you describe for us how State and Private funds are distributed, by program?

Answer: The overall basis for the allocation of Federal financial assistance to States for State and Private Forestry (S&PF) activities is embodied in P.L. 95-313, the Cooperative Forestry Assistance Act of 1978. This authority, plus consultation with the Committee of State Foresters, determines the level of Federal financial assistance to States.

The following sections of P.L. 95-313, describes specific criteria for Federal financial assistance to States:

Section 3. Forest Resource Management; Wood Utilization; Seedlings, Nursery, and Tree Improvement: Within the general guidance of the States' resources plan or process for stating goals and objectives, the primary criteria for funding these activities include the available delivery systems, past accomplishment trends, and potential for gains in forest resource management.

Section 4. FIP and ACP: Primary criteria for allocation of these technical assistance funds are: availability of commercial forest land, potential for economic return, and previous year expenditures.

Section 5. Insect and Disease Control: For Federal financial assistance associated with the Cooperative Pest Action Program, the two primary criteria for grants are: the amount of resource to be protected and the number of State pest management specialists required to manage the program. Funds for cooperative suppression activities, based on project selection criteria, are provided to States for preventing unacceptable losses in the highest resource valued areas and the threat infestations pose to adjacent lands. These resource values include timber, aesthetics, recreation, wildlife, and watershed.

Section 6. Urban Forestry: Primary criteria include the availability of a State urban forestry specialist, community need, and past accomplishments in urban area assistance.

Section 7. Fire Protection and Rural Community Fire Protection (RCFP): For Fire Protection, funds are allocated based on an analysis of fire protection efficiency. National interest, benefits, and efficiency are the key criteria. Financial and technical assistance are then distributed into six activity groups: information, analysis and planning, technology development, technology transfer, shared resources, and efficient State protection.

Limited grants for RCFP are based on priority needs of communities, (with populations less than 10,000) to train, equip, and organize to protect adequately against wildland and structural fires.

Section 8. Management Improvement: Criteria for grants include completion of State forest resource plans, and key pilot projects that aid in the transfer of latest technology in plan implementation and contribute to the viability of the States' forestry economy.

In addition, funds are made available to the Forest Service through the Soil Conservation Service (SCS) for watershed planning and protection, flood prevention, and rural economic development in designated watersheds, river basins, and areas. Some of these funds are then allocated to States to carryout planned activities.

20. Question: Have analyses been done showing the most effective or efficient distribution of Urban Forestry money? Of State resource money? Of Management Improvement money?

Answer: Within the fundamental framework of maintaining national programs, we work to maximize the application of funds distributed among

States. Analyses are an essential element in the accomplishment of the State and Private Forestry mission and in the management of individual programs.

In the case of Urban Forestry, those programs and activities, such as technology transfer, which have national implications, or are more efficiently delivered in a consolidated approach, are funded at the national level. At the Regional level, plans and proposals from States are reviewed for effectiveness as part of the program development and budget process. These decision making processes are a combination of judgment and analysis, and are decentralized as much as possible to provide maximum impact.

Management Improvement money includes State Forest Resource Planning, Organization Management Assistance, and Technology Implementation.

Analyses has been completed to determine total Full-Time Equivalent (FTE) requirements to accomplish national State Forest Resource Planning (SFRP) goals and individual State objectives. A key program goal is to identify opportunities and provide guidance for the efficient investment of public and private funds in forest resource management to strengthen the national economy. Federal technical assistance and funding for State payments have in the past been provided to all States based on State needs, degree of State participation in the program, and State ability to meet national goals. However, with funding for FY 1985 constrained and supporting both Federal and State FTE's, further analyses have been done to identify key pilot States where funding investments will have highest payoff potential and provide high levels of transferable technology.

Technical assistance offered under the Organization Management Assistance program is based on analyses of individual State needs for managerial improvement. Analyses of needs are based on responses to State employee questionnaires.

Fire Protection

21. Question: What was the conclusion of the analysis done to determine the efficient level of funding for the State Fire Protection Grant Program? Does it show that net resource losses would decrease if the amount spent for fire protection at the State and local level were increased?

Answer: The results of the national analysis indicate that achievement of efficient fire protection on non-Federal wildlands would require annual expenditures of \$327 million in presuppression and \$107 million in suppression. At that level, \$168 million in resource losses would occur with 4.4 million acres burned.

In contrast, the national FY 1984 level indicates presuppression expenditures of \$305 million result in \$129 million in suppression expenditures, \$325 million in resource losses, and 5.6 million acres burned. The analysis indicates that a shift of \$22 million from suppression to presuppression would result in a reduction of \$157 million in resource losses and 1.2 million fewer acres burned.

The Federal financial assistance in this program will be targeted activities of national interest which will lead to efficiency and national benefits. Examples of these activities include the sharing of equipment, manpower, and training facilities; the development and transfer of new technology; and the collection, analysis, and reporting of data of national and Regional value.

Boundary Waters Canoe Area Grant

You are proposing a \$3,000,000 grant to Minnesota to help offset, through intensified forestry practices, the impact of establishing the Boundary Waters Canoe Area. The authorization called for a 10-year program.

22. Question: Are we making enough progress that we will be able to terminate the program early or do we need to fund the program through the full authorization period? What percentage of our various targets have been met?

Answer: Based on the progress to date, we expect that the program will be needed through the authorization period to accomplish the objectives of this Act.

The accomplishments thru FY 1983 are generally quite good, but with some cumulative accomplishments falling short of targets. New State Forest roads completed through FY 1983 are 142 percent of the planned goal for the full 11 years. Bridge repairs have lagged behind targets because of the legal status of easements. Through FY 1983, State Forest reforestation is 121 percent of cumulative targets and timber stand improvement is 139 percent. For private forest management, the comparable percentages for reforestation and stand improvement are 69 percent and 21 percent. This lesser accomplishment is due, in part, to the severely depressed economy in northern Minnesota which has reduced the private landowners' capacity to invest in management practices. There have been significant improvements and expansion of the State Tree Nurseries. While cumulative seedlings shipped are 90 percent of cumulative targets, the annual seedlings shipped is up from less than 10 million to more than 20 million. The shortfall in meeting the target is probably due to the depressed economy.

The Forest Service is planning to work with the State Forester of Minnesota this year to reevaluate the level of intensified resource management needed to offset the reduction in the programmed allowable timber harvesting resulting from reclassification of the Boundary Waters Area. This will be a State/Federal coordinated evaluation.

Currently, it appears good progress is being made with the funding that has been provided to date. The reevaluation will provide an updated assessment of intensification needs to meet the offset provisions of the Act of 1978. A revised plan and schedule of targets will also be developed and recommendations will be made regarding adjustments in the authorized program period. These revisions and recommendations will be available for next year's budget deliberations.

National Forest SystemMinerals

23. Question: What was the 1983 and 1984 Forest Service funding level for mineral withdrawal reviews?

Answer: Specific funding was not provided for mineral withdrawal reviews during FY's 1983 and 1984. There were 166 reviews planned for 1983. Work was started on the reviews and 64 were completed in conjunction with Forest Land Management Plans. We hope to complete the remaining 102 reviews during FY 1984, in conjunction with our land management planning process.

On page 118, you indicate that you are requesting an additional \$621,000 to facilitate mineral withdrawal reviews, under the land classification program.

24. Question: Have those lands been surveyed? By whom, when and at what cost, and with what findings?

Answer: We have not completed technical mineral reports (surveys) on the lands planned for withdrawal reviews in FY 1985. Such reports will not be prepared unless the review findings indicate a need to continue the withdrawal. In these cases, the report will be prepared by Forest Service personnel.

25. Question: Could you provide for the record a plan to accomplish mineral surveys on wilderness lands and withdrawal reviews within the next 3-5 years, including estimates of cost?

Answer: Beginning with FY 1985, the Agency plans to complete the program at a rate of 20 percent per year, which results in approximately 320 reviews on 1,190 sites, totaling 400,000 acres at an annual cost of \$1.2 million. The target completion date for the entire 2,165,179 withdrawn acres is 1989.

The Forest Service, in cooperation with the USGS and Bureau of Mines, has a plan to complete approximately 6.7 million acres of mineral surveys/assessments on National Forest System lands in 450 roadless areas. The work is planned to be done by USGS and the Bureau of Mines during fiscal years 1984 through 1990 at a cost of approximately \$13.4 million (\$2/acre).

26. Question: Could the Forest Service reimburse USGS or Bureau of Mines for these reviews or surveys?

Answer: Mineral withdrawal reviews under Section 204(1) of FLPMA are done by the Forest Service and funded with appropriate Forest Service budget line items. (See question 25.)

Mineral surveys/assessments have historically been funded and accomplished within the USGS and Bureau of Mines. The answer is "no" on mineral withdrawal reviews and "yes" on mineral surveys/assessments. There are no line item funds for mineral surveys/assessments in the Forest Service budget. However, the National Forest planning regulations require that minerals information be utilized in the land management planning process. There are two potential sources of funding: internal, using the minerals program or land management planning funds; or continued external funding through the USGS or Bureau of Mines.

Any Forest Service reimbursement funding of USGS or the Bureau of Mines would have to come from existing minerals management or land management planning funds. This would adversely affect Forest Service capability to be responsive to the existing minerals management job and/or Forest Service capability to meet the land management planning schedule.

The Forest Service, USGS, and the Bureau of Mines are cooperating and have established a plan for accomplishing needed mineral surveys/assessments on National Forest System roadless lands (See question 25.)

Common Variety Minerals

You are proposing an increase of \$1,021,000 (+35%) in the Common Variety Minerals Program, which includes gravel, sand, and other similar materials. An increase of \$1 million dollars for this program seems out of line with other priorities.

27. Question: What is the compelling need for this increase?

Answer: The funding is needed due to increased emphasis on operating plan administration to ensure resource coordination and protection, and compliance with mine safety and health regulations.

28. Question: What percent of the demand for these common variety minerals is generated by other Forest Service activities, such as road construction needs to meet timber production targets or roads to provide access to recreation areas?

Answer: An estimated 75 percent of the demand for common variety minerals is for internal Forest Service needs, such as roads for timber and recreation areas.

29. Question: Who are the other primary customers for these materials?

Answer: The other primary customers are road contractors, States, counties, and townships.

Land Exchanges

You are proposing an increase of \$858,000 (+15%) for land exchanges.

30. Question: Will any of that be used for cash equalization payments?

Answer: None of the proposed increase of \$858,000 for land exchanges will be used for cash equalization payments. The increase is planned for preparation of exchange environmental assessments, appraisals, titles, and other work developing additional land exchanges.

31. Question: On how many acres do you propose to exchange jurisdiction with BLM this year?

Answer: In FY 1984, about 57,200 acres changed jurisdiction under P.L. 98-141 (97 Stat. 912). Another 17,600 acres could be transferred during FY 1984, depending on Congressional action. If Congressional action is delayed until FY 1985, the transfer of jurisdiction will be completed then.

32. Question: Would more money help facilitate those jurisdictional transfers?

Answer: Additional funding is not necessary in FY 1984. The actual size of the FY 1985 program has not been determined. Therefore, no funding for it was included in the budget request.

33. Question: Please provide a 5-year plan for those transfers by State for the record, including costs and likely outcome of changes.

Answer: Although we have reviewed jurisdictional transfer potential in the Western States, we have not developed an overall plan since the costs and benefits of each potential transfer must be analyzed and public acceptance achieved before proposing any transfer.

34. Question: How will the Forest Service handle the impact on the 25% fund payments?

Answer: The impact on the 25 percent fund payments in those areas involved in jurisdictional transfers will vary due to the size of receipts and PILT payments, and could be affected by legislation being considered by Congress. Each case will have to be analyzed on an individual basis to determine what recommended action should be taken to minimize the impact on local governments. Should general legislation be passed by Congress which changes the payments to local governments, any recommendations made by the Forest Service would be in line with that general legislation.

Lands - Recreation Residence Fees

We have spent a lot of time recently working with FS staff and individual permittees to review proposed changes to the recreation residence fee system.

35. Question: What is the status of your review?

Answer: Last November, the Forest Service provided the Senate and House Appropriations Committees a follow-up report on recreation residence procedures. In that report, several policy changes were proposed, including adoption of a 20-year fee cycle and annual adjustments of the fee based on the Consumer Price Index. The annual adjustments would begin in 1985 by applying the cumulative CPI to fair market value fees that became effective between 1978 and 1982. In the case of recreation residence permits at Priest Lake, the Forest Service would use the 1978 fees as the base, rather than the new fees announced for 1983.

As part of its review of fee procedures, the Forest Service last September reexamined the Priest Lake appraisal and prepared a new report for the 1982 values. The values reflected in the new report were adjusted back in time to 1977 as a check on the fee established for the 1978-1982 period. Based on these adjusted values (which amounted to a fee reduction of about 50 percent for the lakefront lots), the Forest Service will reduce the 1978 fees before applying the proposed fee policy. We believe the proposed new fee is fully consistent with values reflected in the use of private and State lands at Priest Lake.

There seems to be a willingness by all parties to agree on a set of regulations to replace the language we've included in our appropriations bill the last two years. However, we are not there yet, partly as a result of apparent Forest Service insistence on maximizing revenues from these permits and partly as a result of a recently completed, time consuming Forest Service reevaluation and reappraisal of the Priest Lake fees. The outcome of that reappraisal is that the Forest Service now agrees with what we were saying in 1981 and 1982, that the FS appraisal was faulty and that it resulted in fees in excess on fair market value being collected.

36. Question: How long do you think it will be before you can complete your review?

Answer: A notice of the proposed policy changes was published in the May 23 Federal Register. All comments submitted to the Forest Service during the 60-day public comment period provided in the notice will be reviewed and considered in developing the final policy. We believe a National policy developed through this process will ensure fees that are fair and equitable to both the permittees and the public. We expect our policy will be finalized later this year. Assuming the recreation residence fee limitation (Senate Amendment 107 in the FY 1984 Appropriation Act) is not contained in the FY 1985 Appropriations Act, implementation of final policy would begin in 1985.

37. Question: Is there any assistance we can provide?

Answer: We request that Senate Amendment 107 (1984 Appropriations Act) not be included in the 1985 Appropriations Act. We believe continuation of this fee limitation will serve to delay resolution of a fair and equitable fee system. Fifty-two percent of permittees did not receive a credit because they had not had an increase exceeding 50 percent. The effect of Amendment 107 has been to place a moratorium on all fee increases. As a result, some fees have not been adjusted for 7 years. Thus, the problem experienced in the past of large fee increases at 5-year intervals is being increased.

In other cases, in areas where past increases were less than increases in the cost of living, there had been no previous appeals related to fees. We now have situations where some permittees are entitled to a credit and others are not. The fairness of the 50-percent criteria is impossible to explain in such situations.

The inference is that Amendment 107 is fair and of benefit to all the permittees and that is not the case. Whereas, in a few situations, it has provided for correction of errors which we have identified, there are some situations in which it has resulted in an unwarranted subsidy to individuals at the expense of the American public.

In November, 1983, we advised the Committee of our findings relative to inequities in administration of recreation residence permits. We also described proposed changes which we anticipate will result in equitable administration. We are continuing to refine these proposed changes in response to comments being received from permittees and the public. We believe that their implementation in FY 1985 will result in meeting the objectives of the Committee.

38. Question: Have you requested a budget increase to help you manage this program? Is one needed?

Answer: A budget increase will not be needed to manage the recreation residence program as proposed.

Facility Maintenance

You have requested an increase of \$1,914,000 (+14%) for maintenance of facilities (p. 122).

39. Question: Where will this increase be used?

Answer: Almost all Regions would receive some portion of the increase, with the largest increases going to the Northern Region (R-1), Southwestern Region (R-3), Pacific Southwest Region (R-5), and the Eastern Region (R-9). Increased emphasis will be given to the abatement of safety and health hazards at seasonal crew support facilities, such as barracks and bunkhouses, guard cabins, and other seasonal work center facilities.

40. Question: Are these funds managed out of the Regional Office or the Washington Office?

Answer: Regional Foresters and Forest Supervisors manage the facilities maintenance program within broad program direction from the Washington Office. District Rangers are generally responsible for accomplishing the maintenance of facilities on their respective Districts.

41. Question: Can you provide a justification for these funds?

Answer: A major emphasis in the Facilities Maintenance program is providing safe and healthful working and living areas for employees and users of Forest Service facilities. As stated in the Explanatory Notes, nearly half of the Forest Service buildings and supporting utility systems have exceeded their structural and functional design life expectancy. Since funding has not permitted replacement of these facilities, they must be maintained to at least minimum health and safety standards. As stated above, we are particularly concerned about seasonal work crew facilities. The extremely high cost of commercial rentals and overall budget restrictions are forcing us back into some

substandard facilities. These must be brought up to minimum health, safety, and appearance standards.

The request simply states that the funds will be used for the "accelerated abatement of unsafe and hazardous conditions for employees and public users of Forest Service facilities"?

42. Question: For the record, could you distribute the increase by project?

Answer: Project specific management of facilities maintenance funds occurs only at the Ranger District and National Forest levels. Therefore, information on which projects would be funded with the proposed increase is not available at the National level.

43. Question: What is the Forest Service policy on major maintenance --what dollar cost has to be involved for a project to shift from being a "maintenance" project to being a "construction" project?

Answer: Dollar cost is not used as the determining factor to separate major maintenance from construction. Maintenance includes expenditures incurred primarily for the preservation of improvements at the standard to which they were originally constructed or subsequently improved. This would include costs of keeping the facility in an ordinary, efficient operating condition. However, we also consider minor betterment, such as the replacement of a heating system with a higher standard system or the addition of storm windows as "maintenance". A project becomes "construction" when the work being done materially extends the service life of a facility, increases its capacity, or similarly alters its original design and function.

Forest Fire Protection

Overall, you have proposed funding for the forest fire protection program at a level of \$159,875,000, an increase of \$712,000 over the 1985 base level. However, there is a significant shift of individual activities to be funded. For example, decreases are proposed for prevention, detection, and aviation programs, while increases are proposed for attack and fuels costs.

44. Question: Why are these shifts proposed?

Answer: A more cost-effective mix of the FY 1985 fire program requires increases in fuel treatment and fire attack and decreases in prevention, detection, and aviation. The increase in attack will bring needed improvements to the attack organization. The increase in fuels treatment is recommended by initial information from Forest Plans and increases vegetative management assistance to other resource managers. Initial attack personnel have assumed responsibility for some prevention activities. Increased public detection of fires and electronic systems, supplemented with temporary detection stations, have reduced the need for traditional fixed detection stations. Adjustments in helicopter contracts will implement more cost-effective helicopter use.

45. Question: What is the most efficient fire prevention budget level (about \$195 million, see p. 126)?

Answer: The budget for the most efficient fire protection program, as identified through the national fire management analysis, is \$194.4 million. This program level would minimize the sum of protection costs, suppression costs, and net resource damages from fire over a period of years.

46. Question: Why isn't that funding level proposed?

Answer: The requested fire program funding is consistent with the current budget objective to minimize expenditures, with management objectives, and with a reasonable level of risk.

The fire analysis identifies the efficient program based on a range of annual fire occurrences and weather conditions expected over a period of years. Therefore, there is an opportunity to reduce the Forest Fire Protection (FFP) budget (and potential fire-related expenditures) for a given year below that indicated for the long-term efficient program, by accepting a reasonable increase in the level of risk.

47. Question: Is there an analytical weakness or flaw in the Forest Service fire budget analysis?

Answer: The analytical process used to identify the efficient fire program is sound, and the estimates it provides of expected Fighting Forest Fires costs and resource losses for alternative FFP budgets are considered in developing the proposed fire program under a constrained total budget. While the initial budget analysis done in 1980 was limited in scope for technical reasons, the analysis process has been revised to expand its capability, and the data base is being updated in the current Forest planning process.

48. Question: Are all factors now included -- fuels, suppression, aviation, etc.?

Answer: The fire management analysis process has been expanded to more consistently evaluate the integrated effectiveness of all protection activities (prevention, detection, fuels management, and attack), and consider trade-offs of costs and benefits among them. This includes the ability to evaluate efficiency of Regional attack forces shared among several Forests.

49. Question: Why didn't the Forest Service request \$195 million? Your request to the Department was only \$164,270,000.

Answer: The fire program and budget requested reflects the objective to hold down fire protection expenditures for FY 1985 within an acceptable level of risk.

Law Enforcement

50. Question: We have heard that the Forest Service has essentially lost control of major segments of National Forest System lands to illegal drug growers. Is that true?

Answer: In 1982, due to cannabis cultivation, public visitation and/or Forest Service management activities were constrained on about 1.5 million acres. This was reduced to about 0.7 million acres in 1983. This trend is the result of the concentrated interagency effort in 1982, in which the most severely impacted areas received highest priority for investigation and eradication.

51. Question: How many arrests or raids were conducted in 1983?

Answer: The Forest Service does not maintain statistics on arrests since other Federal, State, and local agencies have authority and responsibility for enforcing controlled substance statutes on the National Forests.

52. Question: How many visitors were threatened by drug growers in FY 1983?

Answer: Usually visitors who are threatened report the circumstances to the county sheriff. Commonly, the sheriff cannot ascertain whether the threatened individuals were on National Forest or other lands. Consequently, accurate statistics are not available.

53. Question: Is the problem getting worse?

Answer: The problem is becoming more complex. Growers are growing fewer, much higher quality plants in increasingly remote locations. The operations are, thus, becoming more difficult to locate and more expensive to eradicate.

54. Question: What should we do about it, or should we just continue to warn citizens not to attempt to use public lands?

Answer: About 20 percent of the cultivated crop was eradicated in 1983. We believe continuation of the strategy of improved surveillance and eradication will continue the improved trends of reductions in cannabis operations and the acreage constrained. Clearly, interagency cooperation under the leadership of the Federal, State, or local law enforcement agencies with lead responsibility remains appropriate.

Your 1985 estimate calls for an increase of \$133,000 (+3%) over the FY 1985 base program. However, the Forest Service had originally proposed a program level of \$7,755,000, an increase of about 50 percent over the FY 1985 base program.

55. Question: If that funding level were provided, what would you do with the increase?

Answer: Such an increase would be employed in two ways. First, it would be used to increase the surveillance and investigative capability of State and local law enforcement agencies on the National Forests. It would also be used to increase the presence of State and local agencies on a priority basis to protect visitors and their property.

Road Maintenance

You have requested a budget level of \$66,267,000 for FY 1985, an increase of \$997,000 (+1%) over the FY 1985 base program. In 1985, you would close to all use 58,274 miles of Forest Service roads (18% of the total road system mileage of 331,674 miles).

56. Question: How many miles were closed to all use in FY 1983? FY 1984?

Answer: Accurate records for this data are not available. However, we estimate that road closures for FY 1983 and FY 1984 are approximately 15 percent to 18 percent of our total road mileage.

Similarly, you would fully maintain for passenger car use only 45,746 miles (14%), and you would partially maintain for passenger car use another 52,501 miles (16%).

57. Question: In all, you would maintain only 30% of the FS road system for passenger car use. Why?

Answer: Forest Service roads are constructed and maintained to standards commensurate with land management objectives and resource program needs, as determined through the planning process. This process, and road maintenance budget constraints, require that a larger

number of Forest Service Road System mileage be constructed and maintained for use by "high clearance" vehicles (logging trucks, pickups, jeeps, etc.).

58. Question: Is this trend moving up or down over the past 10 years?

Answer: The percentage of roads maintained for passenger car use has decreased over the past 10 years. This reduction has resulted from: (1) roads reaching and exceeding their design life; (2) overall road system deterioration due to decisions to maintain them at lower levels and (3) new roads being constructed to lower standards than in the past. This downward trend will continue.

Timber Sales

You are proposing to prepare and offer 11.2 billion board feet (BBF) of new sales in FY 1985.

59. Question: How much do you intend to reoffer from past offerings not sold or from defaulted sales?

Answer: In addition to 11.2 billion board feet of new timber sales to offer in FY 1985, we estimate reoffering 200-400 million board feet of defaulted timber sales and reoffering 300-500 million board feet of timber sales that had been offered in prior years but not sold. This 300-500 million board feet has been re-latively constant the past few years.

60. Question: That makes the total sales offering in 1985 at what level?

Answer: The total timber sales offer in FY 1985 including reoffer, which was counted in the year it was first offered, will be 11.7 to 12.1 billion board feet.

61. Question: How much money and what BBF volume is included in your FY 1985 estimate in the form of advance preparation?

Answer: There is no funding of increased shelf volume in the FY 1985 President's budget.

62. Question: The FY 1985 program would permit (or assumes) what minimum level of timber sales capability in FY 1986, FY 1987, and FY 1988?

Answer: The FY 1985 program assumes a minimum timber sales program level of 11.2 billion board feet in FY 1986, 1987, and 1988.

63. Question: What is the current annual rate of new housing starts?

Answer: The latest annual rate published was 1.638 million units (seasonally adjusted) for March. The figures are released by the Bureau of the Census, Department of Commerce, around the middle of each month giving figures for the previous month. The Chief Economist for the Department of Commerce estimates that the annual rate will be 1.8 to 1.9 for the coming months.

64. Question: Do we have an adequate explanation yet of what caused the precipitous drop in March of the annually adjusted rate?

Answer: Economists in industry and government agree that the weather was the primary cause for the drop in the annually adjusted rate.

SBA Set-Aside

65. Question: What is the current status of the effort to "reform" the Small Business Administration set-aside program? Could you provide for the record a list of options being considered for revising the SBA program, with the FS analysis of pros and cons for each.

Answer: A joint USDA/SBA study was conducted to address the issues raised in a 1979 GAO report "Allegations Regarding the Small Businesses Set-Aside Program for Federal Timber Sales (B-125053)". That joint study was completed last August and the results published.

Based on the study, several procedural changes in the program were placed on the agenda of the President's Cabinet Council on Natural Resources and the Environment. The proposed changes caused considerable concern on the part of the timber industry, even though they were only under consideration within the Administration and have never been formally proposed.

As Assistant Secretary Crowell has excused himself from dealing with small business set-aside issues, Deputy Secretary Lyng and Forest Service staff held discussions with representatives of both large and small business groups. As a result of those discussions, it now appears possible to achieve consensus support for several changes in the current set-aside program. The original proposals are attached. They are currently being reviewed and modified by FS staff. We hope to have an Administration proposal in the Federal Register by early summer. We will be happy to provide you with more information at that time.

Following is a list of options under consideration:

- I. BASE SMALL BUSINESS SHARES ON HARVEST HISTORY RATHER THAN PURCHASE HISTORY.
 - Provides more reasonable reflection of volume harvested by nonmanufacturers.
 - Share responds to actual changes in production rather than to changes in volume under contract.
 - Would appear to work better on small volume Forests where each sale has potential to influence share.
- II. PROVIDE UPPER LIMIT ON SMALL BUSINESS SHARE.
 - Small Business Act directs agencies to ensure that small business firms have the opportunity to purchase a fair proportion of sales. A 100 percent share does not represent a proportion.
- III. ELIMINATE SET-ASIDE TRIGGER AND THE SET-ASIDE OF THE SHARE PLUS THE DEFICIT. SET-ASIDE THE DEFICIT WHEREVER IT OCCURS.
 - Eliminate opportunity to pick and choose when a set-aside program is to be offered. A reduction in the number of sales set-aside will reduce the differential in price between open and set-aside sales.
- IV. PROVIDE FOR SALE SELECTION BY FOREST SERVICE, GUIDED BY AN OBJECTIVE MONITORING SYSTEM.
 - Present system does not meet objectives of selecting typical sales. When Forest Service representative meets with small

business advocate he is placed in the position of being the large business advocate. Unnecessary shuffling of paper.

V. PROVIDE FLEXIBILITY UNDER 30/70 RULE FOR A PURCHASER TO TRADE LOGS BEYOND RESTRICTIONS OF THE CURRENT RULE.

- Providing a small business firm with flexibility to market logs to achieve the best use will make his/her operation more viable. Recognizes that the species or grade mix as an individual sale may not match the 30/70 distribution.

Contract Extensions

The timber volumes defaulted so far in FY 1984 are about 115 MMBF.

66. Question: Do you anticipate about 500-600 MBF total for the year?

Answer: About 255 MMBF was defaulted during the first half of fiscal year 1984. We anticipate that approximately 400 MMBF will be defaulted this fiscal year.

Deficit Sales

Deficit sales are those in which the residual value appraisal results in arriving at a stumpage value estimate below the minimum allowable rates. The minimum rates include costs necessary to reforest the cutover area plus provide a minimum return to the treasury. A sale which appraises with a deficit indicates that under current market conditions, an average purchaser will make less than an average profit.

67. Question: Does it necessarily follow that deficit sales are ones that cost the Forest Service more to prepare and offer than is recovered in payments?

Answer: No. Because the appraisal does not consider the Forest Service costs in preparing and offering the sale, there is no relationship between the costs to the Government and the deficit nature of a sale. In addition, because the appraisal does not consider the amount of bidding that may take place on the sale, it does not consider how much of the preparation cost will be recovered in payment. Market conditions for Forest products influence whether or not a sale will be deficit. A sale may not be deficit if it is appraised during good market conditions. However, the same sale could be deficit if it is appraised when the prices for Forest products are low. The timber sale appraisal calculates if a sale is "deficit".

68. Question: Does it necessarily follow that deficit sales are bid the same as they are appraised, or does it frequently happen that deficit sales receive bids above appraisals?

Answer: No. It frequently happens that sales that are appraised as deficit sales, and offered at minimum (base) rates, are bid up to higher levels.

There are many factors besides the appraised price which determine how much a potential purchaser is willing to pay for a timber sale. Overall, supplies of available timber, particular efficiencies of a bidder's operations, and the anticipated market conditions are some of these factors.

Reforestation and Timber Stand Improvement

Timber stand improvement funding and acres to be treated are also reduced in FY 1985. Funding is proposed at a level of \$26,725,000, a reduction from FY 1983 levels of \$53,774,000 (-50%) and a slight increase over FY 1984 appropriations to date of \$26,062,000.

69. Question: What site classes will you be treating in FY 1985?

Answer: We will treat a mix of site classes across the country since the efficient approach is to contract work in economically sized projects within an area. Emphasis will be placed on high sites that can be accomplished at reasonable cost.

70. Question: What site classes will you be reforesting in FY 1985?

Answer: This will again be a mixture of sites. The remainder of the backlog is generally of lower site quality, while most of the other reforestation areas are dependent upon the quality of the sites where timber was previously harvested. Comparatively, these would be higher sites.

71. Question: What happens to your K-V and appropriated reforestation program if the herbicide ban continues? Does it simply reduce acres to be accomplished?

Answer: If the herbicide ban continues, some work can be done by alternative methods at higher cost. Ultimately, there will be a reduction in the program.

72. Question: Can you provide us with a statement indicating your potential utility for additional reforestation and TSI money in the FY 1984 supplemental bill, in an attempt to offset the reduced acreage to be treated due to the herbicide ban?

Answer: Timing would prevent the effective use of any additional fiscal year 1984 funding in reforestation and TSI. Alternative projects have already been selected to be done in fiscal year 1984 to replace those affected by the ban.

73. Question: We are told that the reforestation and TSI budget proposals for 1985 would represent the lowest accomplishment rate in over 10 years and that the present allowable harvest level is in jeopardy as a result. Would you agree with that?

Answer: The budget proposals are at a lower level than recent years. Present allowable sale quantities are not necessarily in jeopardy, since they are usually based on work done within a 10-year period. Therefore, a somewhat smaller program for 1 year can essentially be made up on subsequent years. Although some growth loss would occur, a 1-year delay would not be sufficient to reduce the sales program.

You are requesting \$664,000 to build a new nursery tree processing building on the Nebraska National Forest.

74. Question: What will the building be used for?

Answer: The Tree Processing Building includes facilities for packing and cooling tree seedlings which have been lifted from the nursery beds and are awaiting distribution for reforestation. Seedlings must be lifted from the nursery beds while still in the dormant stage and stored in a refrigerated unit until planting conditions are appropriate. The

sorting and packing operation is very labor intensive and facilities such as lunchrooms and restrooms must be provided. The following is a breakdown of the processing facility: cooler area, 3,360 square feet, restrooms, lunchrooms, etc, 1,920 square feet; and packing area, 4,160 square feet. The facility was designed to be constructed in two phases. The first, in 1984, for \$475,000 was the tree cooler with storage capacity for 4.5 million seedlings. The second phase, in fiscal year 1985, is for the building which will house the packing area and employee facilities. This building will abut the cooler unit. This construction will replace the packing shed and cooler built in 1931 and 1938 respectively.

75. Question: Have you considered acquiring that service through a private sector contract?

Answer: Bessey Nursery is located in Halsey, Nebraska, where the population is 130 people. Facilities for packing and storing the seedlings are not available in Halsey or the surrounding area. The facility is necessary, however, nursery personnel are discussing the opportunities for contracting the Bessey Nursery lifting and packing operations.

Recreation

You are requesting a recreation management budget of \$80,435,000, a reduction of \$5,592,000 (-7%) from the FY 1985 base program.

76. Question: You do not project an increase in the number of visitors expected in FY 1985. Why not? Visitation increased from 217.8 million in FY 1983 to 228.2 million (estimated) in FY 1984. Why won't we have a similar increase in FY 1985?

Answer: Actual use during FY 1982 and FY 1983 leveled off due to the recession and severe weather. Our estimate of 228.2 for FY 1984 is a 4.78 percent increase over FY 1983, and may be optimistic based on past years' actual use. Therefore, we have not projected an increase in FY 1985.

Actual FY 1984 figures will not be available until after October 1984.

77. Question: If the Forest Service has an increase in visitors, will you need more money?

Answer: The President's Budget is adequate to meet minimum needs of the number of visitors expected. If the number of visitors increases, funds will be reprogrammed from other activities if they are available. Management actions to reduce services would also be taken if appropriate.

78. Question: If your legislative proposal to increase revenues from NFS recreation lands is enacted, will you need more money?

Answer: No. Increased fee collection costs would be drawn from current recreation management programs.

As I read your proposal, you would charge user fees at about 2,000 of the Forest Service's 6,000 sites.

79. Question: How can you do this without more staff?

Answer: The Agency is currently charging fees on 2,000 of 6,000 campground sites. If legislation is passed to increase fees, we estimate collections will be made at an additional 1,900 campground sites, 1,600 picnic sites, 321 swimming sites, and 1,096 boating sites.

There is a legislative proposal which would allow volunteers to handle money. If passed, volunteers will augment the current staff and the estimated 550 FTE's needed to implement the increases in the fee system. If this legislation is not passed, currently available care, police, and maintenance personnel will collect fees, as they do now.

80. Question: What is the status of construction of the Begich-Boggs Visitor Center on the Chugach National Forest in Alaska? Please provide a status report on all projects underway, including unobligated balances and a schedule for project completion.

Answer: The current project status and generalized timeline for project completion is as follows:

1. Bids for the facility construction package, including the building, parking area, and landscaping, were opened on May 23, and were very close to the estimate. The contract has been awarded to their Artic Slope, Wright, and Schuchart Co.
2. The objectives, draft outline, and contract specifications for the film have been developed.
3. Film contract advertising is scheduled for June.
4. Field work and collections for the exhibits are underway. The Forest is working with the USDA Design Group in Washington to prepare exhibit design and specifications.
5. Groundbreaking ceremonies for the facility are planned for early July 1984.
6. The exhibit fabrication package is expected to be awarded by January 1986.
7. The exhibit package is expected to be installed by April 1986.
8. The grand opening is scheduled for June 1, 1986.

To date, funds have been used to:

- Revise and update the facility design package to meet current building codes.
- Complete an environmental assessment for the construction project.
- Develop an Interpretive Services Site Master Plan.
- Prepare a Public Involvement Plan for the project.
- Develop the facility construction package.
- Develop the outline and specifications for the film.
- Initiate the conceptual planning for the exhibits element.
- Transfer a Project Manager and Project Engineer to the Forest.

The current unobligated balance on the project is \$7,621,916.50.

Wildlife and Fish Habitat

You are proposing two significant reductions in the wildlife and fish habitat program -- a reduction of \$1,401,000 (-58%) for endangered species and a reduction of \$1,193,000 (-38%) in anadromous fish habitat improvement.

81. Question: What endangered species program changes are you proposing? Can you provide a species specific list for the record?

Answer: Programs on high-emphasis species will continue over a longer time period. High emphasis species include the grizzly bear, woodland caribou, red-cockaded woodpecker, peregrine falcon, and condor. Funds will not be available to initiate new programs on lower-emphasis species. Current lower-emphasis programs, however, will continue at a slower pace.

82. Question: Will you provide for the record a detailed list of all activities on which you are spending grizzly bear money in FY 1984 and FY 1985 and a complete record of all bear relocations over the past ten years, with explanations as to the purpose of the relocations.

Answer: The primary management activities for grizzly bears are: mapping habitat components to aid in developing management plans and cumulative effects processes; developing habitat-species response models to help evaluate cumulative effects; assessing the road and trail management program in occupied habitat; monitoring grizzly bear activity in selected locations to learn about bears and provide for early handling of potential problems; obtaining wildlife biologist input and review of other resource projects and environmental analysis as it pertains to the grizzly bear recovery needs; developing strategies to reduce all forms of bear mortality; developing preventable strategies to minimize human hazard in bear country; and improving habitat in areas short of critical food and cover requirements.

Activities in other resource areas leading to the recovery of the grizzly bear, which require funding, include: Outfitter and guide compliance checks to determine if standards of the permit are being met; installing and maintaining trail signs which give information on grizzly bear identification and how to conduct activities while in grizzly bear country; more timely disposal of garbage from recreation areas in occupied habitat; monitoring grazing activities in occupied habitat; and contacting campers to inform them of proper camp procedures in occupied grizzly habitat.

Pertaining to grizzly relocations, any translocations are made within the six identified occupied grizzly ecosystems. There are essentially two purposes warranting translocation: to resolve a human-grizzly conflict, and to assist in the maintenance or recovery (augmentation) of a grizzly population within a recovery area.

Trapping and movement of grizzly bears on National Forest lands are the responsibility of the U.S. Fish and Wildlife Service and the States. The Forest Service sometimes is requested to assist in the movement of bears and participate in the decision about where bears may be placed on National Forest lands. The Forest Service has final approval for location sites on National Forest lands to avoid problems with relocated bears. Relocation is primarily the responsibility of the States and the U.S. Fish and Wildlife Service; the Forest Service does not compile and maintain records about relocation of bears. Each situation is handled as a separate case.

83. Question: For anadromous fish habitat improvement projects, please provide for the record a list of potential projects and the economic return attributable to each.

Answer: Potential forest projects are aggregated in the Habitat Opportunities Program, which the Forest Service has recently developed in cooperation with the States. These projects are primarily of an investment nature, however, and cannot be justified at the present time within overall funding levels.

This Program identifies opportunities in habitat management on National Forests which could provide a potential increase of 43 million pounds (23 percent) in the total catch. Benefit/cost ratios for individual projects vary from 1.6 to 1, to 7.2 to 1. Individual project costs could vary greatly by Forests and Regions. The economic return of each project varies with the productivity of the stream, the combination of projects, and the potential for the stream.

Within the Pacific Northwest Region, the primary project areas are spawning bed improvement, pool development through construction of low-head log dam and spillways, and stabilization of channels to maintain fish passage.

Range Improvements

You are proposing a budget level of \$359,000 for range structural improvements, a reduction of 85 percent from the FY 1985 base program (p. 166). Furthermore, Range Betterment Funds (appropriation of grazing fees) will decline from \$5,378,000 in FY 1983 to \$4,028,000 in FY 1984 to \$3,665,000 in FY 1985. On the ground investments in such items as fencing and water developments will decrease, therefore, from \$7,628,000 in FY 1983 to \$4,024,000 in FY 1985, a reduction of 47 percent.

84. Question: What do these investments contribute to range condition and to the carrying capacity for grazing?

Answer: Currently, 74 percent of our grazing allotments are under improved management. Many of these allotments are dependent upon improvements constructed during the Civilian Conservation Corps era and are approaching maximum serviceable life. To keep these allotments at improved management and to raise management on other allotments, requires investments for construction of fences and stock water developments and for revegetation of deteriorated ranges. Range Betterment Funds are the primary source of funding for range improvement investments. These investments contribute to improved livestock controls and management which lead to improved range conditions over time, and provide for maintaining or increasing the range carrying capacity.

85. Question: Do you think that investments in range improvements should continue to be tied to grazing fees or should they be based on an analysis of need and what is economically justifiable?

Answer: Recommendations for grazing fees for 1986 and subsequent years will be submitted to Congress in accordance with the requirements in the Public Rangeland Improvement Act (PRIA) of 1978. Regardless of the fee option chosen for 1986 and subsequent years, all proposed range improvement investments will require a cost-effective analysis to judge the economic efficiency, as well as environmental quality and secondary values (values to other resources) of alternative range improvement practices.

If grazing fees are adopted on the concept of fair market value, over time they should provide an equitable return to the Treasury, as well as a source of funding for needed range improvements.

86. Question: Is there any doubt in your mind about the federal role in these projects?

Answer: The role of the Federal Government in funding range improvements is legitimate. All range improvement investments, regardless of funding source, are capitalized and retained in the name of the United States.

Improved range conditions and productivity resulting from range improvements and improved management of livestock provide benefits to all rangeland resources.

Structural and nonstructural range improvements are necessary to manage vegetation and livestock. Without them, lands would be less productive, livestock numbers would be decreased as production decreases, and local economies would be adversely affected.

Land Acquisition

You've requested \$9,635,000 for the FY 1985 land acquisition program, down \$28,991,000 (-75%) from 1984 appropriations to date. In FY 1985, \$3,565,000 will be used for acquisitions management, down 11 percent from the FY 1984 level of \$4,000,000.

87. Question: What is the basis for this proposed reduction?

Answer: The reduction in the Land and Water Conservation Fund (L&WCF) program will defer the acquisition of lands within the National Forest System.

Acquisition of all authorized Forest Service purchase areas is not a tenable goal. There are over 1.7 million acres in such areas with an estimated cost of \$2 billion--about the same as the entire Forest Service budget. The FY 1985 Budget emphasizes management of the land the Government already owns more efficiently rather than adding to the Federal estate. Purchase of land can only be justified when it would result in a very substantial improvement in management efficiency, and acquisition through exchange is not possible. Under these circumstances, limiting land acquisition activities to those funded in the budget is essential and, thus, would not accommodate these proposed purchases.

The \$4,000,000 for acquisition management in FY 1984 included funds for legal services from the Office of the General Counsel (OGC) involving the L&WCF acquisition program. The FY 1985 acquisition management proposal does not include funds for legal services from OGC.

88. Question: Have funds been provided in prior years from the Forest Service appropriated funds to reimburse OGC for legal assistance? What is the 1985 proposal?

Answer: In prior years, the Office of the General Counsel (OGC) was reimbursed for legal services involving the Land and Water Conservation Fund Acquisition (L&WCF) program. These reimbursements were made from L&WCF appropriations to the Forest Service.

In fiscal year 1985, the appropriations request for the Forest Service L&WCF program was reduced by the projected cost of OGC's legal assistance. The recommended budget for OGC was increased to cover their cost of providing legal assistance to the Forest Service. The OGC staff

that supports Forest Service programs would obtain all of its funding through the Agriculture appropriation.

You are requesting \$2,500,000 for acquisition of resorts in the Boundary Waters Canoe Area (BWCA).

89. Question: How many cases are either optioned, or having appraisals developed, or in court? What is their total cost?

Answer: The following shows the current status of the Forest Service purchase program in the BWCAW and their costs:

<u>Acres</u>	<u>Property Value</u>	
Properties Owned:		
City of Tower	359.9	\$ 62,000
John Tobin	5.2	74,000
Total		<u>\$ 136,000</u>

Buy-out Request
Appraisal in Process:

Hank's Camp Resort	27	\$ 150,000
Northern Trust Co.	156	100,000
Total		<u>\$ 250,000</u>

Resorts in Federal
Court of Claims:

Deer Trail Lodge		\$ 425,000
Snowbank Lodge		550,000
Total		<u>\$ 975,000</u>

Smrekar (Range River) Condemnation:

Complaint Filed - Estimated Deficiency	<u>\$ 40,000*</u>
Grand Total	\$1,401,000

* If the Court award is in excess of this amount, we may be required to pay attorney fees and court costs in accordance with the Equal Access to Justice Act.

As we understand the status of the BWCA program, you have about seven cases totaling \$1.4 million in process. An additional twenty qualified properties remain, at an estimated value of between \$5 and \$10 million. However, you have no estimate as to how many of the twenty want to sell. Further, as we understand it, you had about \$5.4 million available as of the beginning of FY 1984. About \$1.4 million has been obligated to date. Therefore, you have a current balance of about \$4.0 million to cover known cases totaling about \$1.4 million.

90. Question: Doesn't this leave about \$2.6 million available in FY 1984 and FY 1985 to take care of property owners wanting to sell?

Answer: We have an unobligated balance of approximately \$2.53 million. However, we anticipate additional requests for resort buy-outs in 1985. Over the past 5 years, we have acquired resorts totaling 396.56 acres at a cost of \$6,037,371, or about \$15,224 per acre, and about \$300,000 per resort. The early resort acquisitions were the less profitable resorts. Remaining resorts will cost more. We cannot predict how many, or which resorts will request acquisition in 1985. However, in accordance with Public

Law 95-495, we are required to appraise and make offers for qualifying properties upon request of the owner. If the owner accepts the offer, we are bound to purchase the property. With a predicted higher cost per resort, we believe the \$2.5 million (requested) will provide for acquisition of about six or seven resorts. The \$2,530,000 unobligated balance available for resort acquisition would be sufficient to acquire about another eight resorts.

You are also requesting about \$2,500,000 for the Lake Tahoe Basin land acquisition program.

91. Question: What do you hope to acquire with these funds? Please provide a complete description for the record.

Answer: Based on previous years' experience, we estimate 500 acres of environmentally sensitive lands in the Lake Tahoe Basin will be acquired with the \$2.5 million requested in FY 1985:

<u>California</u>	<u>Parcels</u>	<u>Acres</u>
Eldorado County	310	300
<u>Nevada</u>		
Douglas County	<u>310</u>	<u>200</u>
Total	620	500

92. Question: Please provide for the record a complete status report and plan for acquisition of lands and mineral interests in the Mt. St. Helens National Volcanic Monument.

Answer: Status reports and plans for acquisition of lands and mineral interests in the Mount St. Helens National Volcanic Monument are as follows:

FOREST SERVICE, USDA

Update on the acquisition of mineral interests within
Mount St. Helens National Volcanic Monument (NVM)

The majority of the minerals within the NVM is being acquired by exchange since the current program does not contain funds for the purchase of the remaining minerals. Following is a summary of the exchange of minerals in the NVM.

<u>Mineral Owner</u>	<u>Acres</u>	<u>U.S. Minerals</u>	<u>Status/Remarks</u>
Weyerhaeuser	16,184	16,177	Negotiating U.S. minerals. Expect completion 8/84.
Burlington Northern	27,084	26,854	Negotiating U.S. minerals. Expect completion 8/84.

The status of the remaining mineral interests within the NVM is as follows:

Reserved Interests:

Eli Smith - 695 acres reserved in a 1938 land exchange.
Partially flooded by Spirit Lake. Owner asking \$3 million. No

appraisal to date; difficult value premise. We assume if market warranted extraction, it would have already been accomplished when copper prices were higher. No immediate plans for acquisition.

Unpatented Claims:

Dan Fer Investment Corporation - 30 Unpatented claims (approximately 605 acres) within monument. Dan Fer Corporation filed action in United States District Court, Western Washington, to compel Secretary of Agriculture to exchange other mineral interests for their claims. The case was dismissed March 6, 1984. The unpatented claims are not a real property right that can be acquired by the United States because the United States still owns the minerals.

Duval - portion of 20 unpatented claims traversed by boundary line (approximately 500 acres). Claimant has indicated some intent and desire to terminate operations. Bulk of interests lie outside boundary.

At this time of considerable restraint in the Forest Service budget, we plan to continue emphasizing acquisition of mineral interests in the NVM by exchange in accordance with P.L. 97-243, including the exchanges with Weyerhaeuser and Burlington Northern.

FOREST SERVICE, USDA

Update on the acquisition of lands within
Mount St. Helens National Volcanic Monument (NVM)

The majority of the land within the NVM was or will be acquired by exchange.

Following is a summary of these exchanges:

<u>Landowner</u>	<u>Acres</u>	<u>U.S. Acres</u>	<u>Status/Remarks</u>
Weyerhaeuser	16,777	4,756	Completed 12/82
Burlington Northern	16,354	2,631	Completed 3/83 (9,000 outside NVM)
Washington DNR	4,056	1,670	Expect completion 9/84
Longview Fibre	320	160	Longview may wish to add lands. Expect completion in 1985
Chicago Mines	40	2	Company having difficulty equalizing values; complete 9/84
Champion International	113	135	Expect completion 1985

In addition, 160 acres were acquired by filing a Declaration of Taking in September 1982. The Congressional delegation has been involved in this case. The former lot owners agree to settlement by exchange. The U.S. Attorney wants binding commitments to exchange before trial. The trial will probably be scheduled for the summer of 1984.

Burlington Northern donated 690 acres, including the top of the mountain and the former location of Spirit Lake Lodge.

The remaining landowners, holding 510 acres in total, have indicated their wish to sell their properties to the United States. Purchase funds are not available to acquire these properties; however, we are continuing to discuss the acquisitions with the landowners and plan to acquire them as funds become available.

<u>Landowner</u>	<u>Acres</u>	<u>Status/Remarks</u>
Pacific Power & Light	320	Appraisal under contract. Estimated value may be \$200,000
YMCA	85	Appraisal approved \$7,500
Harmony Falls	10	Appraisal approved \$6,000
International Paper	<u>95</u>	Appraisal under contract. Estimated value may be \$95,000
	510	

At a time of considerable restraint in the total Forest Service budget, we plan to continue emphasizing exchange rather than purchase to acquire additional lands. However, P.L. 97-243, establishing the NVM, directed us to acquire the nonfederal lands as soon as possible; hence, the planned acquisition of the 510 acres that cannot quickly be acquired by exchange.

93. Question: Please provide a complete report for the record on acquisition of the International Paper lands in the Lye Brook Wilderness, Vermont.

Answer: The International Paper property is located in the Lye Brook Wilderness Area and contains approximately 900 acres. It has an estimated value of \$250,000. There are no funds for purchase of tracts in wilderness areas, therefore, nothing further has been done towards the purchase of this tract.

94. Question: Please provide a complete report for the record on acquisition of lands for addition to the White Mountain National Forest, New Hampshire, and Maine. The specific tracts are the Virginia Lake Tract, the Pine Mountain Tract, and the two Pilot Range Tracts.

Answer: Senators Humphrey and Rudman, the Society for the Protection of New Hampshire Forests, and the Appalachian Mountain Club have requested that four tracts be acquired on the White Mountain National Forest:

Pine Mountain Tract	4,700 acres
Pilot Range Tracts (2)	4,000 acres
Virginia Lake Tract	<u>1,740 acres</u>
Total	10,440 acres

Estimated Cost - \$3,900,000.

The Virginia Lake Tract is in Maine. The Pine Mountain Tract and Pilot Range Tracts are in New Hampshire.

The Pilot Range Tracts are adjacent to, but outside the Forest boundary. Senators Humphrey and Rudman have introduced a bill (S. 2577) expanding the Forest boundary to allow the purchase of the Pilot Range Tracts.

These properties are now on the market and available for sale.

A recent letter from Chief Peterson included the following statement:

"The Forest Supervisor (for the Wayne National Forest, in Ohio) is addressing the National Forest landownership issue in the forest planning process. Based on previous planning efforts, the Wayne should have at least 300,000 acres of well consolidated national forest land, with an optimum of somewhere between 300,000 and 600,000 acres. The forest plan will better define this option."

Just for the record, the Wayne National Forest has a gross acreage of 832,953 acres within its boundaries, of which 176,694 were in Forest Service ownership as of September 30, 1983, leaving 656,259 acres of other lands within the boundaries.

95. Question: Would you explain this quote for us? We would like a complete report for the record, including the previous planning efforts and their rationale. What is the status of the Wayne National Forest plan update?

Answer: A study completed in 1968, which modified the boundary of the Wayne National Forest, indicated the Forest should contain approximately 600,000 acres. The Wayne Recreation Composite plan approved in December 1980 indicates the Forest Service should eventually contain approximately 400,000 acres. Adjusting for present economic conditions and other factors, it is now estimated that a minimum of 300,000 acres is needed. These differing recommendations are the rationale for the range from 300,000 to 600,000 acres.

The Wayne National Forest Plan is scheduled for completion December 1985.

For the Appalachian Trail, you have recently completed a review of all Forest Service lands related to the Trail. You have grouped future land acquisition needs for the Trail into four classes and provided an estimated of cost for each. Would you describe those for us?

The data is as follows:

Right of Way Protection	15.0 miles	\$ 703,400
Relocation Needs	29.4 miles	\$ 836,900
Scenic Protection/Side Trail Access	103.47 miles	\$2,734,942
Whole Tracts/Remnants/Inholdings	6,873 acres	\$1,411,250
Totals	147.9 miles	\$5,686,492

6,873 acres

96. Question: Do we properly interpret this to mean that the Forest Service actually needs about \$1.5 million (\$703,400 plus \$836,900) to provide basic right of way protection and to provide for relocations of trail segments away from development and erodible soils?

Answer: Although the review identified the need of \$1.5 million, we are not requesting the funding at this time. If funding were being requested, it would be used for those purposes. Most of the Appalachian Trail lies outside of National Forests. The public

recreation benefits from completing all desirable land acquisitions for the trail in National Forests are less than for alternative uses of the funds.

ADDITIONAL QUESTIONS FOR THE RECORD

RESEARCH

97. Question: For each of the forest research budget activities, please list the major new or expanded research needs, as identified by either Forest Service research users or through other areas.

Answer: The highest priority research is already in the President's budget. A detailed budget line item description of additional or expanded research opportunities that are less important follows:

<u>Budget Line Item</u>	<u>Additional Funding</u> (thousand dollars)
<u>Forest Fire and Atmospheric Sciences Research</u>	550
Intensify research on atmospheric deposition and on management of prescribed fires.	
Initiate and accelerate research on regeneration and vegetation control in loblolly pine through use of prescribed fire, and accelerate research on characterizing smoke emissions from this use of prescribed fire.	
<u>Forest Insect and Disease Research</u>	2,350
Continue gypsy moth research and insect research for protection of Alaskan forest resources at current program levels. Also, continue current program levels for research on methods for assessing the impact of insect attacks on western forests and on host/pest systems including research on needle diseases and seed and cone insects. Continue Integrated Pest Management (IPM), Research, Development, and Application (RD&A) Program for Bark Beetles of Southern Pines at current program levels.	
Accelerate research on techniques for assessing pest impacts in loblolly and slash pine seed orchards, young plantations and on cryogenic storage of cultures of decay fungi. Research on physiological resistance of trees to insect attack, IPM systems for dwarf mistletoe, scleroderma canker, larch needlecast, and terrestrial effects of acid deposition will also be accelerated.	
Initiate new research on the mechanisms of resistance of loblolly pine to attack by insects and disease. Also, initiate research on use of biotechnology for control of forest insects and diseases and develop new integrated pest management systems.	
As part of a program on international trade, initiate research on transmission of pests and diseases and the degradation that can occur during shipment of wood products for both U.S. imports and exports.	

<u>Budget Line Item</u>	Additional Funding (thousand dollars)
<u>Forestry Inventory and Analysis</u>	6,300
<p>Increase funding so that inventory remeasurement cycles are reduced. Also, continue at current program levels research on computer models of wood consumption by end users and data bases to evaluate international trade.</p>	
<p>Accelerate high priority research to improve procedures for predicting land production responses and to improve multi-resource inventory techniques.</p>	
<u>Renewable Resources Economics Research</u>	1,500
<p>Accelerate and initiate new research on foreign trade in wood products and foreign trade analysis. Continue at the current program level research on returns from forestry investments in the South and on modeling forest ecosystems in the North Central Region, including economics of hardwood products. Accelerate research on returns from forestry research investments.</p>	
<u>Timber Management Research</u>	2,550
<p>Continue research on regeneration, growth and yield of oak in the eastern hardwood types; reforestation of California conifer types; reforestation systems for Southwest Oregon (FIR); and on genetics of western conifers. Research on growth and yield of intensively managed loblolly pine stands, regeneration of shrubs and trees in interior Alaska, tree improvement research in the Great Plains, silviculture of Douglas-fir, and research on the genetics of black walnut would also be continued at current program levels.</p>	
<p>Accelerate research on physiological effects of stress factors on forest trees and on fundamental modeling concepts for planning and yield prediction. Research on improved management techniques, growth and yield models for loblolly-shortleaf pines, physiological resistance of conifers to insect attacks, and incorporating genetic gain into growth and yield models would also be accelerated. Research on genetic transformation of forest trees in microculture, genetic improvement of Douglas-fir, control of undesirable vegetation, and growth and yield of California conifer types and southern hardwoods would also be accelerated.</p>	
<p>Initiate research to develop regeneration and competition control guidelines for loblolly pine.</p>	
<u>Watershed Management and Reclamation Research</u>	2,600
<p>Continue at current program level research on testing shrubs for disturbed sites, management of blowing snow, and mineland stabilization and reclamation studies in Kentucky, South Dakota, and Utah. Also, continue at current program level cooperative watershed research, research on slope stability, and water quality research in Alaska, Pennsylvania, and California.</p>	
<p>Accelerate research relating forest management practices to atmospheric deposition effects and forest management and practices. Research on nutrient cycling, water quality, and acid deposition would also be accelerated.</p>	

<u>Budget Line Item</u>	<u>Additional Funding (thousand dollars)</u>
<u>Wildlife, Range and Fish Habitat Research</u>	1,180
Continue range evaluation research at the current program level. Also, continue wildlife research in oak habitat, high priority cooperative wildlife research, research on silvicultural prescriptions for wildlife management, and on wildlife monitoring techniques. Accelerate research on anadromous fish habitat and wildlife/grazing/timber interactions.	
Accelerate research on the red-cockaded woodpecker and on forest management techniques for wildlife habitat.	
Initiate wildlife habitat relations research in Western aspen forests.	
<u>Forest Recreation Research</u>	250
Continue funding for urban forestry research on the function of urban forest ecosystems at the current program level.	
Initiate research on high priority recreation at the wildland/urban interface and cooperative recreation research programs.	
<u>Forest Products and Harvesting Research</u>	650
Accelerate fundamental research on genetic manipulation to enhance lignin degrading enzymes, adhesives from lignins and tannins derived from the pulping process, structural analysis of roof systems, and on semidry paper forming.	
Initiate research on mechanical fastener performance in reconstituted structural panels.	
As part of a program on international trade in wood products, initiate research on wood product and grading standards.	
Total - All Additional Research Opportunities	\$18,130

98. Question: For the list of budget reductions proposed on pages 45-47, please list the reduction for each major area.

Answer: Budget reductions proposed by major areas of Timber Management Research are as follows:

<u>Location</u>	<u>Type of Research</u>	<u>Reductions in FY 1985 (thousand dollars)</u>
<u>Terminated Units:</u>		
Durham, North Carolina	Terminate research on biological potential for timber production	-95
Sewanee, Tennessee	Terminate integrated resource management research	-300
Durham, New Hampshire	Terminate research on genetic improvement of Northeast trees	-225

<u>Location</u>	<u>Type of Research</u>	<u>Reductions in FY 1985 (thousand dollars)</u>
Columbia, Missouri	Terminate research on silviculture and ecology of forest ecosystems	-200
<u>Reduce/or Delay Research:</u>		
Corvallis, Oregon	Reforestation of poor sites in Southeastern Oregon (FIR)	-120
Olympia, Washington	Silviculture of Douglas Fir	-50
Fairbanks, Alaska	Genetic of trees in Interior Alaska	-100
Berkeley, California	Genetics of Western forest trees	-140
Redding, California	Reforestation of California conifers	-50
Moscow, Idaho	Fundamental modeling concepts for growth and yield	-50
Bozeman, Montana	Thinning and fertilization of Western larch and lodgepole pine	-50
Lincoln, Nebraska	Improvement of Great Plain Trees	-100
Rhinelander, Wisconsin	Genetics of jack pine and white spruce	-150
Macon, Georgia	Development of superior strains of Southern Pine	-50
Research Triangle, North Carolina	Fertility needs of Southern Pine	-50
Gulfport, Mississippi	Seed orchard management techniques	-75
Oxford, Mississippi	Silviculture of Ozark-Quachita Forests	-50
<u>Terminated Studies:</u>		
Carbondale, Illinois	Genetics of oak and white ash	-145
Gainesville, Florida	Eucalyptus and naval stores production	-100
Charleston, South Carolina	Fusiform rust relationships	-50
Nacogdoches, Texas	Timber management/wildlife interactions	-75
	TOTAL REDUCTIONS	-2,225

99. Question: Please list individual costs associated with budget reductions proposed on page 53.

Answer: Budget reductions proposed by major area of Watershed Management and Rehabilitation Research are as follows:

<u>Location</u>	<u>Type of Research</u>	<u>Reductions in FY 1985 (thousand dollars)</u>
<u>Terminated Units:</u>		
Ft. Collins, Colorado	Mountain snow and avalanche removal	-364
<u>Terminated Studies:</u>		
Fairbanks, Alaska	Ecology and management of the Taiga	-173
Ft. Collins, Colorado	Forest range water quality studies	-100
Logan, Utah	Water quality relating to aspen management in the Intermountain West	-100
<u>Reduce/or Delay Research:</u>		
Berea, Kentucky	Surface mine reclamation in the Eastern United States	-145
Rapid City, South Dakota and Logan, Utah	Surface mineland reclamation studies	-200
Parsons, West Virginia	Watershed protection in the Central Appalachians	-55
University Park, Pennsylvania	Municipal watershed ecosystems in the Eastern United States	-50
Provo, Utah	Testing of shrubs for use on disturbed sites in the Western United States	-80
Berkeley and Arcata, California	Snow deposition and water quality in the Pacific Southwest	-100
TOTAL REDUCTIONS		-1,367

Reductions In State and Private Forestry Programs and Research

State and Private Forestry Programs are reduced from \$60 million in FY 1984 to \$25.5 million in FY 1985. Forestry Research's budget proposal is reduced from \$108.5 million to \$103 million in FY 1985. Shifting the burden to State and local landowners and private industry are the reasons given for the FY 1985 reductions in forestry assistance and research. This budget ignores the importance of forestry in the East and South and is threatening the basic partnerships that have been built over the years with State Foresters, land grant universities, and forest industry.

100. Question: What was the level of funding requested by the Forest Service for the Research program for FY 1985?

Answer: The initial Agency request for Forest Service Research to the Department was \$115,087,000. The President's FY 1985 Budget for Forest Service Research is \$103,070,000.

101. Question: What was the level of funding requested by the Agency for the State and Private Program for FY 1985?

Answer: The Agency Request for State and Private Forestry was \$67,562,000.

102. Question: Is this FY 1985 budget in Research adequate to allow the South to meet its major responsibility in supplying wood and wood products to the nation?

Answer: The most important research is being continued. However, research results cannot be forecast in advance and it is quite possible that factors such as favorable tax treatment for reforestation by nonindustrial private landowners may be of equal or greater importance in assuring future timber supplies in the South.

103. Question: Is this budget in State and Private Forestry adequate to allow the South to meet its major forestry responsibilities to the nation?

Answer: The FY 1985 budget for State and Private Forestry is adequate given that financial and technical assistance to landowners is provided and funded from other sources and that other ownerships--Federal, other public, and forest industry--accept greater responsibility in meeting timber management goals in the South.

104. Question: What actions do you contemplate in forestry research in order to meet the FY 1985 budget reductions?

The reductions in Forest Research continue to reflect objectives to improve efficiency and reduce costs by streamlining the Forest Service research organization. We are continuing to address the most critical research problems. Page 19 of the Explanatory Notes lists the criteria for selecting the highest priority programs for the FY 1985 budget.

Some programs, such as acid rain, have been increased in the FY 1985 budget.

Those programs to be terminated are for the most part nearly complete or will be combined with other programs.

105. Question: What is the impact on the Forestry Research personnel with these proposed reductions and on your cooperative research programs with colleges and universities?

Answer: Total Forest Service research personnel will be reduced by 100 to 150 full-time equivalent positions.

In the past, about 10 percent of appropriated research funds has usually been devoted to cooperative research with colleges and universities. The decline in the FY 1985 budget will require that cooperative research be reduced accordingly.

106. Question: How will this reduction affect your Research operations in Mississippi? (The four locations are at Gulfport, Oxford, Starkville, and Stoneville.)

Answer: Impacts of the FY 1985 President's Budget on our four locations in Mississippi are as follows:

Mississippi Location	Type of Research	FY 1984	FY 1985	Difference
		Budget	President's Budget	
(Dollars in Thousands)				
Gulfport	Genetics of Southern pines	611	536	-75
	Wood products insects	769	769	0
	Diseases of Southern pine	514	514	0
Oxford	Hydrologic Evaluation	214	164	-50
Starkville	Technology of Eastern tree seed	192	192	0
	Forest inventory	1,902	1,777	-125
Stoneville	Hardwood regeneration & management	642	642	0
	So. hardwood insects and diseases	<u>460</u>	<u>460</u>	<u>0</u>
Total Impact in Mississippi		5,304	5,054	-250

Nonindustrial private forest lands represent over 75 percent of the South's commercial forest acreage and produce over 60 percent of the timber harvested. We understand that through the application of improved forestry practices this production can be doubled.

107. Question: How are we going to achieve these increases with the proposed reductions in forestry assistance to nonindustrial private landowners?

Answer: Increases will be achieved if financial or technical assistance to landowners is provided by private consulting foresters, by the timber industry which is dependent on nonindustrial private lands for its supply, and by the State Forestry agencies in those States where the timber industry is important in future economic development plans.

108. Question: Do we have the forestry research to meet these needs?

Answer: Research has developed a considerable volume of technical information applicable to Southern forests. While additional research could be accomplished in such areas as natural regeneration, management of natural stands, and inventory and projections of supply and demand; the presently available information can go a long way to increasing productivity.

109. Question: How much of the FY 1985 budget for State and Private Forestry is directed at forestry assistance on nonindustrial private forest lands? (This question comes from Dick Allen in February 20 letter to you.)

Answer: Of the total budget, \$25,505,000, the amount for cooperative programs on nonindustrial private forest lands is \$10,630,000 (42 percent).

Wood Use--U.S. Competitiveness and Technology

Senator Mark Hatfield requested a study of Wood Use by the Office of Technology Assessment (OTA). The report asserts that the United States could become a net exporter of wood products if substantial investments (\$10-15 billion over the next 30-50 years) are made in forest management, research and development, and export assistance to reduce foreign trade barriers.

The OTA report also recommends that three University Centers of Excellence be established to strengthen and expand knowledge of harvesting and utilization.

110. Question: Is the Forest Service familiar with these OTA reports?

Answer: Yes, the Forest Service has had input into the OTA report and is familiar with its contents and recommendations.

111. Question: Is the concept of "Centers of Excellence" a good one?

Answer: The Department of Agriculture Science and Education Agencies and the Forest Service have employed the concept for some specific areas of research for several years. Indeed, the Forest Service's Forest Products Laboratory is just such a "center of excellence". The concept envisions a concentration of scientists working on one or a few specific problems.

Using the research area of wood utilization as an example, it would be possible to have joint planning and to a lesser degree joint funding of research projects between the Forest Products Laboratory and one or two universities in different geographical areas. There could be a limited exchange of scientists from time to time to broaden the experience of Forest Service Research staff and their university counterparts. Such an undertaking would require some dilution of the Federal funding for the Forest Products Laboratory. For that reason, it is not clear that the establishment of the two or three centers of excellence recommended in the OTA report would have a net positive effect on the state of forest products utilization research, and for that reason such a proposal was not included in the FY 1985 budget. The alternative would be to provide additional funding for such an effort. However, the wide range of competing demands for Forest Research, National Forest System management, and State and Private Forestry programs requires that the Administration strongly oppose any additional funding for such an endeavor.

112. Question: How would Forest Service Research be coordinated with research at these centers?

Answer: Coordinated research planning would be done and jointly sponsored research might be possible. Depending on program direction and scientific talent available, joint research could be undertaken. In these ways, the overall research capability of both research organizations might be increased.

113. Question: What is the utility of wood utilization research? Is it cost effective?

Answer: Wood utilization research facilitates the more complete and efficient use of forest products; particularly logging residues, cull trees, hardwoods, and waste paper. This research increases the overall productivity and monetary return from forest lands and reduces environmental and reforestation costs.

Cost effectiveness of seven relatively new Forest Service utilization research technologies was recently assessed by a University of Minnesota team and showed rates of return estimated to be 26 percent when projected to the year 2000. At the same time, the production of high quality products for construction and paper from under utilized residues, wastes, and hardwoods, could result in softwood savings of over 4 billion cubic feet per year. This will significantly reduce the cost to the ultimate consumer of wood products.

114. Question: How do you transfer this utilization technology to the various users?

Answer: Technology transfer methods vary widely depending upon the type of findings and the ultimate user. The most commonly used include: research publications, direct contacts with the public, workshops and conferences, formal technology transfer plans, and the issuance of exclusive patent licenses to private concerns where high risks or investments are controlling factors in implementation of results.

In a typical year, the Forest Products Laboratory hosts about 11,000 visitors, responds to some 60,000 phone calls and letters, and distributes approximately 250,000 research publications and special brochures to the public.

Technology is also transferred through direct contacts at two major annual meetings. One provides industry the opportunity to review and critique the Forest Service research on wood products use. The other is similar in nature, but is directed towards States, universities, and other Federal agencies.

115. Question: Can you give us specific examples of payoff from forest products research?

Answer: Forest products utilization research in the Forest Service has a long and productive record. Current basic knowledge on the characteristics and properties of wood; the engineering basis for structures; and a wide variety of wood products, chemicals, and pulp and paper came largely from Forest Service research. Such basic and applied research on wood performance has made possible the utilization of up to 95 percent of the wood brought to mills, whereas 40 years ago it was only 35 percent. The research returns are impressive. Total Federal expenditures in forest products research since 1900 are about \$200 million, while the economic gains from new processes and products can easily be reckoned in billions of dollars. Some recent examples are:

- Developed a "Best-Opening-Face" (BOF) system which accurately determines the best sawing pattern for each and every log to facilitate maximum possible yield. Mills currently using BOF produce approximately 6 million board feet annually and save \$90 to \$100 million.
- Developed a truss-framed house with an improved framing system applicable to residential construction. Savings of up to 30 percent in framing material is possible. Faster and more efficient construction methods result in more affordable homes. To date, more than 100 builders have erected some 1,700 units in 30 States.
- The Southern Pine Plywood Industry is a result of Forest Service Research and today 66 mills produce 8.3 billion square feet of plywood.

116. Question: To what extent do you maintain liaison with the universities in planning and carrying out the Forest Service research program?

Answer: Historically, Forest Service Research has had a long and close association with universities. Most of our field research units are located on university campuses. Almost 10 percent of our work is accomplished through cooperative agreements with universities. Interagency Personnel Agreements are also used to allow college professors to supplement research programs.

This relationship was broadened in 1976 when, at the request of the Agricultural Research Policy Advisory Committee, a National Program of Research for Forests and Associated Rangelands was developed. The

national research program was developed as a joint effort between the U.S. Department of Agriculture and the universities. This was accomplished through a series of regional and national conferences in which user suggestions were obtained from some 1,000 delegates and participants representing governmental, industrial, consumer, environmental, and conservation organizations.

Through these National and Regional Planning Groups, a coordinated forest and rangeland research program has been developed among the Forest Service, Cooperative State Research Service, the University community, and others.

Timber Sales on the National Forests

The 1985 program proposes a decrease in timber sale program from 11.7 billion board feet in 1984 to 11.2 billion board feet in 1985. This level provides for the resale of 200 to 400 million board feet of timber from defaulted contracts.

Road maintenance program funding has been increased to provide for public safety. Other resource maintenance programs, including recreation visits, hunting and fishing, and public access are being maintained or reduced.

117. Question: What will be the effect of timber contract extension on timber operations in National Forests in Mississippi?

Answer: We expect that contract extensions will have little effect upon timber operations in National Forests in Mississippi. This is because only a few sales will be extended under the program. Five purchasers requested that nine timber sales in Mississippi be scheduled for extension.

Information on the Timber Sale Extension Program in the National Forests in Mississippi follows:

	Size of Business		
	<u>Small</u>	<u>Large</u>	<u>Total</u>
Number of Purchasers Requesting Extensions	3	2	5
Number of Sales Included in Extension Request	6	3	9
Timber Volume (MMBF)	14.6	8.2	22.8

118. Question: Will wildlife habitat, public recreation, and other non-consumptive uses receive equal priority with timber in Forest Management in Mississippi?

Answer: Wildlife habitat needs and other resource management needs will be equally considered along with timber management needs. Priorities are determined within management areas by the Forest Supervisor based on input by an interdisciplinary team. Objectives and outputs for all of the resources differ for each management area. Some areas are more productive for a certain species of wildlife, or provide a certain type of recreation experience, or have different tree species and different rates of growth. Thus the priorities among resources within the Forest differ by management areas.

We understand the Agency has brought its road standards more in line with multiple use needs in the last few years.

119. Question: What do you expect the impact of these new standards to be on wildlife and recreational values in forests in Mississippi?

Answer: Most of the existing roads in Mississippi will not be affected by this change of standards. More definitive resource management objectives resulting from Forest level planning efforts have allowed road standards to fit the service level of the specific area to be served. In some cases, roads constructed for timber removal will be closed following the sale activity. These planned closures affect the design standards of the road thus reducing construction costs.

Dispersed recreation opportunities will not be affected by closing of roads. Today, there exists a surplus of roaded dispersed recreational opportunities, in Mississippi as well as the nation as a whole, based on the road system which remains open.

Closing of roads will benefit wildlife populations through reduction of harassment caused by vehicular travel.

120. Question: How will the 200-400 million board feet of defaulted timber in the West be sold?

Answer: The defaulted timber will be resold under the same conditions and provisions as the original contract, unless the Regional Forester determines that there is justification for reselling a particular defaulted sale under different conditions.

121. Question: Is this timber being proposed and sold as part of the regular sales program or under a special program?

Answer: The resale of defaulted timber will be financed by the same appropriations as the regular timber sale program. However, the volume of default timber resold will not be credited against the timber sale attainment targets established annually by Congress.

122. Question: How will the costs for defaulted timber preparation and sale be kept?

Answer: Currently costs for defaulted timber sales are kept locally by timber sale for determination of damages which may be due from the defaulting purchasers. The current accounting system may be modified to permit identification of resale costs to estimate damages and future funding needs.

QUESTIONS SUBMITTED BY SENATOR DENNIS DeCONCINI

Coronado National Forest - Ranching/Mining Conflict

It has been brought to my attention that situations have occurred on the Coronado National Forest where mining claims have been filed but not developed for the purpose of living on a claim.

123. Question: Is it your impression that this problem is more pervasive in the Southwest than other parts of the country?

Answer: No. The problem of occupancy trespass on mining claims (use of claims for purposes other than mining) is more pervasive elsewhere. The development of mining claims for purposes other than mining is more common in California and Oregon.

124. Question: Has this problem been brought to your attention on other National Forests? Please explain.

Answer: Yes. The problem of occupancy trespass on mining claims has been a longstanding administrative problem in the National Forests in the public lands Regions, especially in the Pacific Southwest and the Pacific Northwest. The Forest Service has been dealing directly with this problem since the late 1950's.

125. Question: What possible remedies do you suggest to resolve the problem?

Answer: Revisions or amendments to the general mining laws (30 U.S.C. 21 et seq.) have been suggested as the best remedy to control these abuses as recently as 1982.

126. Question: What has the Forest Service done to date? Please document.

The Forest Service has issued new policy relating to unauthorized occupancies on mining claims and is currently treating these as criminal and civil matters in the Federal courts.

By letter of May 16, 1983, the Supervisor on the Coronado National Forest informed my staff that a task force was being formed to examine questionable mining claims.

127. Question: What is the status of that task force?

Answer: The term "task force" is misleading since no formal group was established. However, a concerted effort was made at the Regional, Forest, and District levels to investigate a number of purported occupancy trespass cases on the Nogales Ranger District.

128. Question: Has a report been issued? If yes, please supply the Committee with a copy. If no, when can the Committee anticipate that a report will be forthcoming?

Answer: There was no final report prepared or planned as there was no formal task force established. However, in several cases claims were examined, technical mineral reports prepared, and civil actions recommended against the claimants.

129. Question: Who served on this task force? Will input from affected grazing permittees be solicited?

Answer: This effort was conducted by Forest Service mineral examiners, and other personnel from the Southwestern Regional Office, Coronado National Forest, and Nogales Ranger District. Attorneys from the Regional Office of the General Counsel and the U.S. Attorney's Office were consulted. We do not plan to solicit input from affected grazing permittees. However, we welcome their input and we will respond to inquiries from grazing permittees and any other forest users regarding suspected occupancy problems associated with the mining claims.

We understand that the Southwestern Region has only five mineral inspectors, the lowest for any region in the West.

130. Question: Given the large number of mining claims in this Region, does the Forest Service plan to increase its number of FTE's for mining inspections? If yes, by how many and when? If no, why not? How many more inspectors would you need to more adequately respond to the mining problems? At what cost?

Answer: The Forest Service does not plan to increase the number of FTE's for mining inspections in Region 3. The Region has two vacancies

in their minerals organizations. They are in the process of filling these vacancies which will significantly increase the Region's effectiveness in completing validity examinations. With the filling of these vacancies and proper scheduling of activities, no new personnel are needed to accomplish validity examinations. Consequently, the present funding is sufficient to meet the needs.

131. Question: Are there any on-going investigations into the most questionable of these mining claims in the Southwestern Region?

Answer: Yes. The most questionable cases of uses of mining claims for purposes other than mining are being reviewed.

132. Question: Have any actions been taken to contest the validity of these claims? If yes, please explain. If not, why not?

Answer: Yes. Mineral examinations have been scheduled and conducted. Where the evidence suggests that there has been no discovery of a valuable mineral deposit, and when negotiations with claimants fail, contest actions are initiated through the Bureau of Land Management.

133. Question: What possible remedies do you suggest to help resolve the questionable mining claims problem? Can this be done administratively by regulation or is legislation necessary? Please explain.

Answer: The best solution to the occupancy trespass problem would be an amendment to the mining law. Until the law is clarified to require permission of the land management agency before any structure can be built or occupied on a mining claim, regulations will be of little help. We are presently dealing with this problem administratively through the use of mineral examinations.

134. Question: Does the Forest Service have the cooperation of the Department of Justice on pursuing so-called fraudulent claims? Is more cooperation and support from Justice necessary? If so, please explain.

Answer: Yes. The Forest Service receives the complete cooperation of the Department of Justice in pursuing occupancy trespass cases. The level of assistance has been satisfactory.

Madera Canyon - Termination of Leases of Cabin Owners

The Forest Service is due to terminate a number of leases in the Madera Canyon area on the Coronado National Forest presently used for summer homes and recreational cabins.

135. Question: How many leases are due to terminate at the end of this year?

Answer: The termination actions at Madera Canyon have been in effect since 1972. Twenty-nine of the recreation residence permits terminate December 31, 1984. (The remaining 23 terminate in 1990.) Of the 29 cabin owners holding permits that expire this year, all but one purchased their cabins within the last 10 years with full knowledge of the impending termination. For that reason, they were able to purchase the residences at reduced prices. Most of these new owners are using the cabins as year-long residences rather than for recreational or vacation purposes.

136. Question: How much will it cost the Forest Service to terminate these leases? Please explain.

Answer: There will be no cost. Our decision to reclaim the recreation residence sites in Madera Canyon for higher public use was made after extensive public review and comment on the management plan for the area. An Environmental Impact Statement was prepared and the decision to terminate the residence use was subjected to thorough administrative review. More recently, the decision to remove the residences was sustained in Federal Court. For these reasons, we do not anticipate any cost in completing the termination actions. The permits will automatically terminate on December 31, 1984.

In accordance with provisions in the permit, the cabin owners will be provided a reasonable period of time after the permits expire to remove their improvements and restore the site to its natural condition. The administrative costs associated with insuring the sites are properly restored will be about \$2,000.

Wilderness

The present Forest Service guidelines for grazing in wilderness areas does not include any provision for the manipulation of vegetation for cedar and juniper pushing. This seems to be a pervasive problem in Arizona, particularly on the Tonto National Forest.

137. Question: Could you please detail for the record how the clearing of cedar and juniper brush are presently dealt with in this area?

Answer: In most areas, the clearing of pinyon-juniper (cedar) is not considered a cost effective range management action and would not be done. When associated with other uses, such as firewood cutting, it can be cost effective. Some of our older and possibly outdated grazing allotment management plans have pinyon-juniper clearing projects in them as an option to be used. The Arizona Wilderness Bill, H.R. 4707, recently passed by the House, does not include any existing or proposed pinyon-juniper conversion areas on the Tonto, Coconino, Coronado, or Apache-Sitgreaves National Forests. On the Prescott National Forest, grazing allotments included in the proposed wilderness areas (House Bill 4707) have management plans which scheduled some new and maintenance of some existing Pinyon-juniper conversion projects. They are as follows:

	<u>Proposed</u>	<u>Existing (maintaining)</u>
Yolo Allotment	---	100 acres
Smith Canyon Allotment	840 acres	---
Tank Canyon Allotment (fuelwood sale)	2600 acres	300 acres
Sycamore Canyon Contig.	---	500 acres

138. Question: What effect will designation of certain units as wilderness have on this activity?

Answer: All proposed clearing activities would be stopped within areas designated for wilderness. This would include maintenance of existing projects.

139. Question: Is statutory language to allow the clearing of this brush either by vegetative manipulation or chain saws necessary? If not, will report language suffice?

Answer: Statutory language to allow clearing of brush in H.R. 4707 designated wilderness areas, either by vegetative manipulation or chain saws, is not needed if Congressional intent regarding clearing is sufficiently depicted in the report. If it is Congressional intent that brush clearing activities be carried out on these areas, we recommend

that these areas be dropped from wilderness consideration. In our opinion, Pinyon-juniper conversions (clearing) are not compatible with the concept of wilderness.

In the Arizona Wilderness Bill, H.R. 4707, recently passed by the House, a provision is included in the measure requiring the Forest Service to report back to the Congress within 1 year and once every 5 years, on the implementation of the grazing guidelines in Forest Service wilderness areas in Arizona.

140. Question: Does the Forest Service have the sufficient resources to comply with this provision?

Answer: The President's Budget contains sufficient funding for reporting to the Congress on the implementation of the grazing guidelines contained in H.R. 4707. The Agency will include the report in our regular grazing reporting process.

141. Question: If steps need to be taken to comply with the grazing guidelines, do you anticipate any additional cost to the Forest Service? If so, how much?

Answer: The President's Budget is sufficient to implement the grazing guidelines contained in H.R. 4707.

142. Question: Will additional personnel be necessary? If so, how many?

Answer: No additional personnel would be necessary to implement the grazing guidelines contained in H.R. 4707.

143. Question: What is the present policy of the Forest Service regarding the use of chain saws in wilderness areas for trail maintenance? Please explain.

Answer: Chain saw use for trail maintenance in wilderness areas may be approved by the Regional Forester when, because of limitations of time, season, lack of primitive tool skills, or other restrictions, the job is not possible to do by primitive methods.

144. Question: Can the use of chain saws be approved by the local forest ranger or does this have to be reviewed by the Region?

Answer: Use of chain saws for trail maintenance in wilderness areas must be approved by the Regional Forester.

145. Question: How long does the approval of a permit of this nature generally take, on the average?

Answer: On the average, it takes 2 weeks to obtain permission to use chain saws for trail maintenance in wilderness areas. If there are circumstances that require faster action, approval can be granted by telephone.

146. Question: Do you anticipate any significant increase in operating costs for the Forest Service in the implementation of wilderness in Arizona based on the House bill? If yes, for what activities and at what cost?

Answer: H.R. 4707 would add 825,800 acres of new wilderness to the National Wilderness System now under Forest Service management, and have an estimated cost of \$1 million over the first 5 years.

147. Question: Will the Forest Service budget be sufficient in FY 1985 to cover these costs? If not, how much additional money will be necessary?

Answer: An estimate of first year costs is \$330,000.

Recreation Use Budget Line Item

Wilderness Management Congressional Budget Line Item

Wilderness Rangers

Supervision of volunteers

Marking key boundaries

Preparation of wilderness plan

Preparation of map and legal description

While these costs are additional to the recreation management funds currently planned for the area as non-wilderness, they can be redirected from other Forest Service activities as the situation dictates.

Oak Creek Canyon

It is my understanding that the Forest Service is interested in purchasing a parcel of land on the Coconino National Forest in the area of Oak Creek Canyon for expanded recreational activities.

148. Question: If the private owner of a 54-acre parcel is willing to sell to the Forest Service, at what price can the Forest Service acquire this land?

Answer: The parcel has not been appraised, but we estimate it would cost between 2 to 4 million dollars. This property is not a high priority acquisition.

Acquisition of all authorized Forest Service purchase areas is not a tenable goal. There are over 1.7 million acres in such areas with an estimated cost of \$2 billion--about the same as the entire Forest Service budget. The FY 1985 Budget emphasizes management of the land the Government already owns more efficiently rather than adding to the Federal estate. Purchase of land can only be justified when it would result in a very substantial improvement in management efficiency, and acquisition through exchange is not possible. Under these circumstances, limiting land acquisition activities to those funded in the budget is essential and, thus, would not accommodate these proposed purchases.

QUESTIONS SUBMITTED BY SENATOR MARK O. HATFIELD

A recent court case in the Mapleton District of Region 6 has required that a "worst case scenario" be used as the basis for all future environmental impact statements by the Forest Service.

149. Question: Please explain the Agency's current plans to comply with or appeal the decision.

Answer: On May 3, the Department of Justice filed a motion for a new trial requesting the Court's reconsideration on the stay and ruling on worst case analysis. The Agency's plan will be finalized following the Court's ruling on the motion sometime after June 20. We are reviewing options on how to comply with the present ruling.

150. Question: What budget impact will the decision have on the FY 1985 timber sales level for Region 6?

Answer: The initial impact on the timber sale program on the Siuslaw National Forest and Region 6 will be a reduction of approximately 100 million board feet. The Region has not studied options on substitute sales or the budget impact.

151. Question: Will additional funds be required for Forest Service Research in order to comply with the judge's request for a "worst case" EIS?

Answer: In the immediate future, adequate research information is available to prepare the "worst case" EIS.

152. Question: What possible impact will the suit have on staffing needs in the Region for compliance or appeal?

Answer: No additional staffing will be needed. Compliance will be primarily through the forest land management planning process and present staffing. Extended time will be required to complete the Forest plans.

153. Question: Assuming that other similar law suits will follow, what long term implications does this court case have on the Forest Service timber management program and the way the Forest Service currently conducts its sales?

Answer: The impact of the decision in the State of Oregon could affect 1.5 billion board feet over the next 2 years. Similar cases across the Nation could result in a cutback in timber offered for sale from the National Forests until final Forest Land Management plans have been approved and "worst case" analyses made. The overall affect upon the timber sales program is not fully known at this time. We will be in a better position to answer that question when the litigation has been completed and a final determination is made about how to comply with the Court decision.

The growing tensions between resource management and the environment have manifest themselves in such lawsuits which, for the time being, have stymied the timber sales program.

154. Question: How has the FS redirected its research program in order to address these immediate environmental problems related to herbicides, landslides, habitat protection, and the like?

Answer: Funds have been redirected into two major program areas to address environmental problems relating to timber sales: regeneration problems in Southeastern Oregon (Forestry Intensified Research Program), and old-growth wildlife.

155. Question: Given the budgetary impact on the timber sales program, should not additional funds be allocated to research in order to resolve these questions which are being addressed in the court room rather than the laboratory?

Answer: In many cases, resolving these questions will require research to be conducted over several years. Increased funding will not necessarily produce more rapid solutions or more credible research. Problems that impede land management activities have a very high priority in the research program. Should additional funding be required, it will be redirected from less important research projects.

The Department of Forestry at Oregon State University, in recognition of the dilemma between protection and production, and in consideration of the economic benefits which are lost as a result of such conflicts, has developed a research proposal to investigate the comprehensive and cumulative affects of timber management practices on the natural resource areas in western Oregon. The Coastal Oregon Productivity Enhancement program (COPE) appears to be directed to an immediate and pressing need for both federal resource managers and environmental interest groups.

156. Question: How would the FS propose to integrate such a research proposal into their ongoing efforts if Congress chose to fund such a study?

Answer: The COPE program could be integrated into ongoing efforts through a number of existing mechanisms, including joint University/Forest Service systems and steering committees. Such a program could be funded by diverting funds from other research activities in Oregon or, if necessary, from some other area. The Forest Service believes that the research program funded in the budget adequately addresses the problems that a COPE program would deal with.

The State of Oregon has recently confirmed that nearly 50 percent of all fisheries spawning habitat in the State, particularly coastal fisheries, is on FS lands. Yet the fisheries habitat budget is not sufficient in Region 6 to provide for actual habitat project improvements.

157. Question: Please outline the total budgetary "needs" within Region 6 for habitat improvement and identify the location and species which would be affected by the project.

Answer: The FY 1985 budget provides \$109,000 for anadromous fish in Region 6. This would take care of work necessary to protect habitat and mitigate the effects of resource programs such as timber and mining. This addresses the "needs" within the Region. Other projects related to habitat improvements in spawning beds, construction of structures, etc., is of an investment nature and cannot be justified at this time. The Salmon and Steelhead Program developed under the Sikes Act with the States, identified a number of such discretionary investment projects. These could require as much as \$1.9 million in FY 1985 if other wildlife and fish habitat improvement funds were redirected to this purpose.

158. Question: What other fish and wildlife "needs" are being identified in the new RPA for which funding is not likely to be available?

Answer: The final decisions for the FY 1985 RPA have not been made. Until they are, it is impossible to answer this question.

159. Question: Please provide the Committee a current status on the plans for construction of a Mt. St. Helens visitors center. Please identify specific construction projects and their costs.

Answer: The preliminary plans from the Architectural and Engineering contract awarded for the Silver Lake building and site design will be delivered in July. The complete package from the contract will be available in October. The visitor center cost is estimated at \$5 million.

The Columbia Gorge Composite Recreation plan identified a number of potential Forest Service land acquisitions in the Mt. Hood National Forest.

160. Question: Please provide the status, an appraisal if available, and your comments for Shield Enterprises, Multnomah County.

Status: The property is available for sale. There are also other potential buyers.

Appraisal: The property was appraised in 1980 at \$47,000. An update will be required. The current estimated value is \$55,000.

Comments: The property consists of 22 acres with about 3,100 feet of frontage on the Columbia River. It is a high priority for acquisition. Exchange possibilities are remote.

161. Question: Please provide the status, an appraisal if available, and your comments for Crown-Zellerbach, Multnomah County.

Status: This property is thought to be available for sale.

Appraisal: The property was appraised 9 years ago. A new appraisal is required. The estimated current value is \$49,000.

Comments: The property consists of 23 acres at the outlet of McChord Creek to Columbia River. It provides public access to the river. The tract includes the upper end of the Oneonta Wetlands and the bench sub-unit with trailhead area. No exchange possibilities exist.

162. Question: Please provide the status, an appraisal if available, and your comments for Ufa Johnson, Hood River County.

Status: The property is thought to be available for sale.

Appraisal: The property was appraised in 1981 at \$97,000. An updated appraisal will be required. The estimated current value is slightly higher.

Comments: The property is 50 acres east of Wyeth Interchange on frontage road. It is a trailhead for Mt. Defiance loop. The owner is in her eighties and not interested in a land-for-land exchange, however, a land-for-timber exchange is possible.

163. Question: Please provide the status, an appraisal if available, and your comments for Union Pacific Railroad, Multnomah and Hood River Counties.

Status: The property is thought to be available for purchase.

Appraisal: The property was appraised 9 years ago. A new appraisal is required. The estimated current value is \$72,000.

Comments: The property consists of 24 acres adjacent to Eagle Creek Campground in the Ruckel Creek Canyon. A major trail traverses the property. The possibility of exchange is remote.

164. Question: Please provide the status, an appraisal if available, and your comments for La Forge, Hood River County.

Status: The property is available for sale.

Appraisal: The property was appraised in 1978 at \$107,500. A new appraisal/timber cruise is required. The estimated current value is \$133,000.

Comments: The property consists of 49 acres located on Wyeth Beach adjacent to previous acquisitions. It would buffer existing development with potential for expansion. Land-for-timber exchange is possible.

In response to Senate report language in last year's bill, the Forest Service provided a preliminary report on its standards and procedures for Open Grade Emulsified Mixes (OGEM). The report highlighted a meeting which took place in Vancouver, Washington on March 31, 1983, and identified a number of action items to be addressed and implemented.

165. Question: What is the status of the interagencies effort to establish a uniform OGEM standard?

Answer: The Forest Service has been a major user of OGEM among State and Federal Agencies. In the northwest United States, Oregon Department of Transportation (DOT), Washington DOT, Federal Highway Administration (FHWA), and the Forest Service (FS) have gained general agreement on the items to be controlled in the specification to construct a satisfactory OGEM project. The Forest Service is developing modifications to its specifications in order to achieve more uniform standards by the specifying Agencies. These modifications should be available about July 1.

166. Question: Was the draftmaster plan completed as planned by February 1, 1984?

Answer: The evaluation of OGEM pavements by FHWA did not take place in the summer of 1983. The Forest Service is requesting that representatives of FHWA, Oregon DOT, Washington DOT, and the FS establish procedures for evaluating the performance of OGEM pavements. It is anticipated that joint Agency evaluations of OGEM pavements will take place in 1984 and 1985.

167. Question: Will the agency finalize its formal policy in time for projects to be considered for OGEM application later this year as mentioned in the report?

Answer: The Agency policy, with respect to OGEM projects, will take the form of guidelines for designers. The guidelines will be used to develop alternative bids for hot mix and OGEM pavements in order to obtain equal performance at the best cost to the Government. The guidelines are being developed and should be available about July 1.

168. Question: If not, what short cuts will the agency employ in order to implement some applications of OGEM this year?

Answer: See Question No. 167.

SUBCOMMITTEE RECESS

Senator McClure. The subcommittee will stand in recess until Wednesday, May 23, at 2 p.m., at which time we will review the 1985 budget estimate for the strategic petroleum reserve, the naval petroleum reserve, and emergency preparedness.

[Whereupon, at 3:35 p.m., Thursday, May 17, the subcommittee was recessed, to reconvene at 2 p.m., Wednesday, May 23.]

DEPARTMENT OF THE INTERIOR AND RELATED
AGENCIES APPROPRIATIONS FOR FISCAL YEAR
1985

WEDNESDAY, MAY 23, 1984

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 2:10 p.m., in room SD-138, Dirksen Senate Office Building, Hon. James A. McClure (chairman) presiding.
Present: Senators McClure and Byrd.

DEPARTMENT OF ENERGY

FOSSIL ENERGY

STATEMENTS OF:

WILLIAM A. VAUGHAN, ASSISTANT SECRETARY FOR FOSSIL ENERGY
HELMUT A. MERKLEIN, ASSISTANT SECRETARY FOR INTERNATIONAL
AFFAIRS AND ENERGY EMERGENCIES

ACCOMPANIED BY:

DONALD L. BAUER, PRINCIPAL DEPUTY ASSISTANT SECRETARY FOR
FOSSIL ENERGY
RICHARD A. FURIGA, DEPUTY ASSISTANT SECRETARY FOR STRATEGIC
PETROLEUM RESERVE
CAPT. MYRON E. SMITH, JR., DIRECTOR, OFFICE OF NAVAL PETRO-
LEUM AND OIL SHALE RESERVES

BUDGET REQUEST

Senator McCLURE. Good afternoon. This is the time scheduled to review the fiscal year 1985 budget requests for the strategic petroleum reserve, the Emergency Preparedness Program, and the naval petroleum and oil shale reserves.

The fiscal year 1985 on-budget request for these three programs includes \$447,190,000 for SPR, \$6,220,000 for emergency preparedness, and \$223,804,000 for NPOSR. These requests represent programmatic increases of \$300,420,000 for SPR, \$902,000 for emergency preparedness, and \$6,254,000 for NPOSR over the comparable fiscal year 1984 levels. The SPR off-budget request of \$1,889,550,000 represents a fiscal year 1985 fill rate of 145,000 barrels per day, a decrease of some 41,000

barrels per day from the fiscal year 1984 average fill rate of 186,000 barrels per day.

PREPARED STATEMENTS

Representing the Department this afternoon will be Mr. William A. Vaughan, Assistant Secretary for Fossil Energy, and Dr. Helmut Merklein, Assistant Secretary for International Affairs and Energy Emergencies. We welcome both of you gentlemen to appear before the subcommittee this afternoon. As is our custom, your full prepared statement will be placed in the record and, if you would introduce the associates who may be assisting with you this afternoon, we will then go directly to the questioning.

[The statements follow:]

STATEMENT OF WILLIAM A. VAUGHAN

Mr. Chairman and members of the Subcommittee, it is my pleasure to appear before you today in support of the President's budget proposals for FY 1985 for the Strategic Petroleum Reserve and the Office of the Naval Petroleum and Oil Shale Reserves. I am accompanied by Mr. Richard D. Furiga, the Deputy Assistant Secretary for the Strategic Petroleum Reserve (SPR) and Captain Myron E. Smith, Jr., Director of the Naval Petroleum and Oil Shale Reserves. The budget for these two programs was developed in concert with the Fourth National Energy Policy Plan (NEPP-IV), published in October 1983, and fully supports the goals and strategies set forth in that document. I will address each program separately.

STRATEGIC PETROLEUM RESERVE

In the eight years since the SPR was created, we have seen a change for the better in the world energy outlook. Our annual oil consumption in 1983 was the lowest since 1970; our net imports, especially from the Persian Gulf, are down; there are also substantial amounts of shut-in domestic gas production capacity that could become available should oil prices rise sharply. We are conserving more and becoming less reliant on petroleum as an energy source and as a result, there are substantial amounts of unused oil production capacity in a number of producing countries. But the objective of creating the SPR to reduce the Nation's vulnerability to energy supply disruptions remains unchanged. We are today closer to achieving our goal of energy security through the development and fill of the SPR. We have in the Reserve almost 100 days of the average 1983 net oil imports excluding SPR crude oil imports, far more than any other major oil importing nation, and we are continuing to fill at a substantial rate. Over the past year, we have made continued progress in all aspects of SPR program development.

SPR INVENTORY

This past December, we reached the half-way mark in terms of filling the currently planned 750-million-barrel system. Our current inventory, of almost 400 million barrels is four times the level when the present Administration took office. Our primary methods of acquiring oil in 1983 continued to be a continuous open solicitation and contracts with Mexico's state-owned oil company, PEMEX. The average daily fill rate during FY 1983 was 228,000 barrels per day and a 186,000 barrels per day fill rate is planned in FY 1984. The actual fill during the first seven months of FY 1984 averaged about 168,000 barrels per day. However, there are currently only 6.7 million barrels remaining to be ordered for FY 1984 fill. We are confident of reaching our goal of an average 186,000 barrels per day fill rate.

SPR FACILITIES DEVELOPMENT OPERATIONS

With the Phase I facilities development complete, we are continuing development of Phase II underground storage capacity. By the end of 1983, the 290 million barrels in Phase II capacity was approximately 66 percent complete with 114.5 million barrels of oil in storage. At the end of the first quarter of FY 1984, Phase II cavern development is approximately 70% complete, and approximately 125 million barrels of this capacity is currently filled or available for fill. The leaching of a new 5.5 million barrel cavern at Bayou Choctaw, which will be exchanged for an existing 10 million barrel cavern, will be completed during 1984. For the fourth successive year, we have been able to project acceleration in our capacity development goals for the FY 1984-1986 period, reflecting the technical progress which is being achieved.

Phase III development at Big Hill, Bryan Mound and West Hackberry also continued in 1983. Drilling was completed at four Phase III caverns at Bryan Mound and the one Phase III cavern at West Hackberry. Drilling was initiated at Big Hill. Construction of surface facilities at Bryan Mound is over 92 percent complete. Contracts were also awarded for long-lead equipment at Big Hill and West Hackberry and for construction required to initiate cavern development at Big Hill. Geological studies were completed and design initiated for a new 10 million barrel cavern at Bayou Choctaw. Due to the favorable market conditions

for drilling and construction contracting during 1983, we have either completed or contracted for more Phase III development activity than we had predicted a year ago.

In sum, we have seen both cost and schedule improvements in the SPR facilities development activity over the past year.

DRAWDOWN EXERCISES

The SPR participated in several drawdown exercises in 1983. One exercise on July 11-12 involved the movement of over 247,000 barrels of oil at Bayou Choctaw and another on November 3-4 involved the pumping of one million barrels from underground facilities at Bryan Mound. In both of these successful tests, the drawdown goals were exceeded. A DOE-wide training exercise (DIREX-B) was performed between July 11 and August 19. DIREX-B tested administrative and management procedures associated with an SPR drawdown. DIREX-B also provided training and an opportunity to identify necessary improvements in the administrative process. One result of this exercise has been the streamlining of the DOE Standard Sales Provisions for the sale of SPR oil during an emergency. A drawdown exercise was conducted at the West Hackberry site on February 28 and 29, 1984. A total of 1,053,000 barrels was pumped from West Hackberry to the Sun Terminal over a 24 hour period, exceeding a test design level of 1,000,000 barrels per day. The SPR Office will conduct another internal training exercise in June 1984. A draft plan for a possible test involving drawdown and actual sale of SPR oil is being developed, although a conclusion as to whether the benefits of such a test outweigh the costs has not been reached.

I will turn now to the budget.

FY 1985 SPR BUDGET REQUEST

The President's FY 1985 budget proposes a total of \$2,336,740,000 in appropriations for the SPR. Of this total, \$447,190,000 is for the on-budget Strategic Petroleum Reserve account to be used for storage facilities development and operations, planning and program direction, and \$1,889,550,000 is for the off-budget SPR Petroleum Account. Both of these proposed appropriations reflect significant increases over the FY 1984 appropriation levels. To put these FY 1985 proposals in perspective, I would like to note that the SPR program has received over \$15 billion in appropriations since the program was created. We currently estimate that the total cost of the 750 million-barrel program, by completion in the 1990-91 period, will be approximately \$26.5 billion, excluding Treasury borrowing costs. The estimate of \$26.5 billion is below the estimates made in prior years because of reduced oil price projections and some facilities cost reductions. If the Congress approves the Department's proposed program for FY 1985, approximately two-thirds of the total cost for the 750 million-barrel system will have been funded, and approximately two-thirds of the oil for that system will have been either delivered or placed under contract for delivery.

OFF-BUDGET APPROPRIATION FOR PETROLEUM ACQUISITION AND TRANSPORTATION

The President's FY 1985 budget proposes an appropriation of \$1,889,550 to the off-budget "SPR Petroleum Account" established pursuant to the Omnibus Budget Reconciliation Act of 1981, an increase of \$1,239,550,000 or 191 percent over the FY 1984 appropriation of \$650,000,000. This request supports an SPR oil fill program of 145,000 barrels per day for Fiscal Year 1985 and future years, reflecting the Administration's view of the appropriate balance between the need to restrain Federal spending and the incremental value of the protection afforded by the SPR oil inventory.

There are two interrelated reasons for the increase in the FY 1985 request over the FY 1984 appropriation for this account. First, the FY 1984 SPR oil fill program is relying substantially on oil purchasing funds available from prior year appropriations. Of the 68 million barrels planned for delivery to the Reserve during 1984, 65 million barrels will have been purchased with prior year appropriations. As we proceed into 1985, however, these balances of prior year

funds will have been depleted, so most of the oil to be delivered in FY 1985 will be purchased from FY 1985 appropriations.

Second, as we look ahead to future years, the Administration is committed to sustaining a 145,000 barrels per day fill rate. To implement this program in an efficient manner and to take advantage of attractive oil purchase opportunities, we believe that by the end of FY 1985, we should have sufficient funds to place half of our planned FY 1986 oil deliveries under contract. We call this practice "advance orders" and propose in this budget to restore advance orders resources to the level of 26.5 million barrels, reflecting half of the planned fill for FY 1986. In contrast, we will have an estimated 18.2 million barrels in advance orders from FY 1984 budget resources as we enter FY 1985, representing the equivalent of approximately four months of FY 1985 fill at the planned rates. Therefore, a portion of the increase in the SPR Petroleum Account appropriation represents a restoration of advance orders resources to permit a continuous and efficient oil fill program.

Over the longer term, sustaining an SPR oil fill rate of 145,000 barrels per day will result in completion of the 750 million-barrel inventory in the last calendar quarter of 1990, which is the first quarter of FY 1991. In all years, SPR storage capacity will be at least 95 percent full under our current capacity projections. We believe that this stable oil fill program represents a sound management approach in light of the continuing need to restrain Federal spending.

FACILITIES DEVELOPMENT

The FY 1985 request for Storage Facilities Development and Operations is \$441,300,000 and consists of \$46,399,000 for Phase II, \$323,629,000 for Phase III, and \$71,272,000 for Non-Phase Specific activities, which are those not clearly associated with any one of the SPR development phases. This is an increase of \$298,943,000 or over two hundred percent from the FY 1984 appropriation of \$142,347,000. This increase is due to major construction activities at the Bill Hill, Texas, Phase III site on a schedule which will create storage capacity adequate to accommodate our long-range oil fill plans for the Reserve.

PHASE I

There are no funding requirements for Phase II since construction of Phase I facilities was completed in 1980.

PHASE II

Phase II consists of the expansion of three Phase I sites by 290 million barrels. The development of 120 million barrels at Bryan Mound is expected to be completed in FY 1986 and 160 million barrels will be completed at West Hackberry by FY 1988. The 10 million barrel Cavern #17 at Bayou Choctaw, currently in private use, will be available in FY 1987. We will complete leaching of a smaller cavern to be exchanged for Cavern #17 during FY 1984. The FY 1985 budget for Phase II proposes a decrease of \$15,594,000 from the FY 1984 appropriation as Phase II leaching activities near completion.

PHASE III

Phase III involves the further expansion of three existing sites by 60 million barrels and the development of 140 million barrels of capacity at Big Hill, Texas. Over the past year, we have been successful in obtaining bids for drilling and construction services at the Big Hill site at prices below those we had originally anticipated. Therefore, our FY 1985 budget reflects a decrease of approximately 20 percent in the estimated cost to complete Phase III development. The annual amount proposed for Phase III in FY 1985 is \$323,629,000, of which \$289,118,000 is for Big Hill, primarily to continue with on-site construction and drilling activities and for construction of off-site raw-water and brine pipelines. By the end of FY 1985, we expect to have completed the construction of all facilities required to support the commencement of leaching operations in FY 1986. Oil storage capacity will become available in the second quarter of FY 1987, reflecting the

Administration's commitment to begin oil fill at Big Hill not later than the third quarter of FY 1987. Development of the entire 140 million barrel capacity planned for Big Hill is scheduled for completion by mid-FY 1990.

For the FY 1985 budget, the plan for developing 40 million barrels in Phase III capacity at the Bryan Mound site remains unchanged. Leaching at Bryan Mound will begin in FY 1984, and the 40 million barrel capacity will be available in FY 1986. For the balance of Phase III capacity, the Department made a configuration change during 1983, such that there is now planned to be one 10 million-barrel Phase III cavern at West Hackberry and another 10 million-barrel Phase III cavern at Bayou Choctaw. This change was made both because of an increase in FY 1983 in the available storage capacity at the Sulphur Mines Phase I site and also because an additional storage cavern at Bayou Choctaw will enhance drawdown capabilities. Leaching of the new 10 million barrel capacity at Bayou Choctaw will begin in FY 1985 and be available for fill in FY 1988. Leaching of the 10 million barrel cavern at West Hackberry will begin in FY 1986, and it will be filled during FY 1988.

NON-PHASE SPECIFIC

Funds proposed for Non-Phase Specific total \$71,272,000, a decrease of \$9,092,000 from the FY 1984 appropriation due to reductions in requirements for continuing engineering and capital improvements. The FY 1985 request includes \$4,283,000 for continuing engineering activities which are required to identify and resolve technical problems and for integration of SPR systems; \$47,989,000 for operations and maintenance activities, including security and electrical power for the sites; and \$19,000,000 for capital improvements which address modifications to existing facilities. The capital improvements category previously was identified as "Safety, Reliability, and Security Upgrades." Examples of projects in this category include installing surge chambers in the hydraulic control valve systems at the sites; major raw-water and brine piping system replacements necessitated by corrosion and erosion; and improvements to fire protection and security systems. Each of the FY 1985 capital improvement tasks were selected after a careful review process which considered standards for fire protection, safety, reliability, and security.

PROGRAM DIRECTION

The FY 1985 request for Program Direction is \$12,290,000, an increase of \$2,127,000 over last year's appropriation. This funding provides for all salaries and expenses necessary to plan and manage the SPR. SPR personnel at headquarters in Washington and SPR field personnel at the Oak Ridge Operations Office and the Project Management Office in New Orleans all have their salaries, benefits and travel funded from this account.

PLANNING AND MANAGEMENT SUPPORT

The FY 1985 request for Planning and Management Support is \$5,600,000, a decrease of \$650,000 from the FY 1984 appropriation, due in part to the discontinuance of some analytic support services by outside contractors. This activity funds several different kinds of information gathering, analysis work, and technical and administrative support.

In summary, over the past year, the SPR program has reached major milestones in terms of technical maturity, funding, and fill levels. With the support of the Congress for the Department's FY 1985 request, the SPR program can reach essentially two-thirds of our long-range fill plans. This concludes the presentation of the SPR and I will now address the Naval Petroleum and Oil Shale Reserves Program.

NAVAL PETROLEUM AND OIL SHALE RESERVES

The budget request of \$223.8 million assumes that the President will make a determination to continue producing NPR-1 and NPR-3 at the Maximum Efficient Rate (MER) for an additional 3 years commencing April 6, 1985. Based on a budget of \$223.8 million and the current rate of production, we will remain equivalent to the fourteenth largest oil producing company in the United States,

have the largest single producing field in the lower 48, retain the status of the third largest total producer of oil in California.

First, I must point out that the Reserves are no longer in the development mode. Rather, we are in an operational mode and, therefore, planning contractor operations have required revision. Secondly, the gas protection plan for NOSR-3 to offset the migration of gas required revision. The revised gas protection plan submitted to you starts this fiscal year and currently envisions a total of 14 wells when completed. Thirdly, we made the decision to delay and draw out the enhanced oil recovery (EOR) program for several reasons:

- o At this point, the EOR program at NPR-3 has not achieved the technical success required for economical production. It is our view that we should not fund EOR to produce oil which can be recovered with less expensive and more traditional recovery methods. Whichever EOR method is ultimately used, it must recover additional oil economically.

- o At NPR-1, because of the magnitude of the operation, there are a number of operational and planning considerations that need to be made concerning secondary recovery prior to implementing a full scale EOR project.

- o As demonstrated by private oil companies, more EOR projects have been drawn out for longer periods than expected. EOR projects originally planned for a 2 to 3 year period are taking anywhere from 3 to 6 years to complete.

- o Finally, the development drilling plan has undergone a major revision because of reservoir characteristics at Elk Hills. We are currently producing from approximately 51 reservoirs. Certain assumptions were made based upon geological conditions and seismic work done in the mid-1970's. We now have over 8 years of production history and find that some of those assumptions and conditions are not as previously anticipated. Thirty wells originally envisioned for the FY 1985 program are no longer in the program. These wells would have been drilled into a gas cap, essentially resulting in the production of gas. They would not produce additional barrels of oil, therefore, they have been eliminated from the drilling program.

This budget also reflects the results of management reviews at both Casper and Elk Hills. At Elk Hills, a joint study team, composed of WBEC (Williams Brothers Engineering Company), Chevron, and DOE, completed a gas plant operations study which resulted in a significant reduction of personnel and subcontracting efforts. We also completed a production and operations study which contributed to a reduction of WBEC staffing requirements. At the end of this month, a joint inventory management and material procurement review will be conducted, since conditions have changed from the late 1970's to today. As you will recall, in the late 1970's orders for casing and tubular goods had to be placed at least 2 years in advance. That condition no longer prevails.

Also, the only company in 1978, 1979, and 1980 that could provide a surface unit was Lufton, and that required an 18-month lead time. These conditions have changed, with the result that material does not have to be bought and stocked in quantity as in the past.

In developing our budget, we used the OMB inflation rate of 4.9 percent except for development drilling where 6.4 percent was used. Rig time is increasing in price and starting to recover the plateau and downward trend of the late 1970's. We have also obtained, on permanent loan from the DOE Las Vegas Operations Office, a "slant hole" drilling rig, which hopefully will result in a significant increase in potential oil recovered from shale at Teapot Dome. The whole south end of Teapot Dome is virgin territory which has oil in-place. In the first quarter of FY 1984, in drilling three of our wells down to the Morrison zone, we hit commercial quantities of oil in the shale formation. Those three wells are bringing in between 40 and 60 barrels of oil a day each. Our present rig is too light for penetration and to contract for a heavier rig would make the cost uneconomical. By going with the "slant hole" rig, we will be able to penetrate the face of the shale at approximate right angles. If "slant hole" drilling is successful, we will probably be able to drill another 10 wells in addition to the FY 1985 request, utilizing funds in the budget plus carryover from changes in the FY 1984 development drilling program.

Since the first of October, we are now selling competitively the oil produced at NPR-1, except for a small portion that remains under a 5-year Defense Fuel Supply Center (DGSC) contract. The oil at NPR-3 is under a similar 5-year DFSC contract. Currently, at Elk Hills we are getting the average of the three highest posted prices plus a \$1.99 bonus, so we are drawing a good price for our oil.

RECENT PROGRAM HIGHLIGHTS AND ACCOMPLISHMENTS

Through the first quarter of FY 1984, NPR-1 (Elk Hills) and NPR-3 (Teapot Dome) produced approximately 147,700 barrels of oil per day, 362.6 million cubic feet per day of natural gas, and 633.8 thousand gallons per day of liquid products. Production from both Reserves in FY 1983 averaged 160,000 barrels of oil per day, 340.2 million cubic feet per day of natural gas, and 664.3 thousand gallons per day of liquid products. The estimated total recoverable oil reserves still available at NPR-1 and NPR-3 are 811 million and 14 million barrels, respectively, excluding additional reserves which might be recovered through enhanced oil recovery techniques or discovered by planned exploration.

Over the past 8 years, this program has pursued an aggressive development program at NPR-1. During this time, 36 exploratory wells and 939 development wells have been drilled. As production emphasis has shifted to secondary methods, our FY 1985 budget reflects a formal deferral of development drilling funds from FY 1984 as the total number of development wells in FY 1984 through FY 1987 has been revised downward. This action in itself will not affect anticipated revenues projected in the budget. Production and processing facilities have been significantly expanded since open-up. Projects completed in FY 1983 included reducing Shallow Oil Zone casing pressure to zero, additional storage for liquid petroleum gas, and construction of new waterflood facilities in the northwest Stevens area. Additional development facilities have been completed including cathodic protection, corrosion control, upgrading tank settings, fresh-water storage, expanding and modifying waste water handling facilities, upgrading gas plant metering, and modifying the Dry Gas Zone gas collection system. Facilities development efforts will continue in FY 1984 to respond to changing field conditions and to increase operational efficiency. At NPR-3, 476 development wells and 22 exploratory wells have been drilled since FY 1976. Seventeen development wells were drilled in FY 1983, with 20 wells scheduled for FY 1984. This is a revision to the original FY 1984 drilling plan to provide for deeper and potentially higher payoff wells based on accumulated geological data. Additionally, horizontal or "slant hole" drilling in the shale formation will be initiated in the latter part of FY 1984. If this technique proves successful, subsequent drilling will occur in FY 1985 within available development drilling funds.

The drilling program was developed to respond to maturing oil fields experiencing production decline. As the reservoirs mature, additional wells are required to continue maximum efficient oil production. This includes in-fill, step-out and EOR development wells. Also, additional wells for water and gas injection are required for pressure maintenance, along with a remedial workover program to install pumping units in wells that once flowed under natural conditions and maintain wells in the optimum producible condition. Two EOR pilot projects at NPR-3, an in-situ combustion and a polymer enhanced waterflood, were initiated in 1980 in the Shannon Reservoir. The EOR program plan has been modified so that additional evaluation and verification of pilot results can be accomplished in FY 1984 before full-scale development is initiated.

Increased production due to EOR is not expected until calendar year 1987. This program is designed to increase total potentially recoverable reserves which cannot now be produced through primary or secondary methods and to slow the rate of decline of daily oil production. The EOR program in the Shannon Reservoir has significant potential for increasing total recoverable oil since it is estimated that primary and secondary methods will produce only 5 percent of the estimated 180 million barrels of oil in-place.

Sales and exchanges of the Government's share of petroleum produced at the Reserves have generated over \$8 billion in revenues for the U.S. Treasury since open-up in 1976. Program expenditures for the same period have totaled

approximately \$1.3 billion, for a six to one return on investment. Total revenues for FY 1983 exceeded \$1.5 billion and are expected to maintain that level in FY 1984 and FY 1985.

Since open-up in 1976, the Naval Petroleum Reserves have produced 384,530,540 barrels of oil, of which the Government has sold 303,954,000 barrels of oil as its share. I will include for the record a chart which graphically depicts the NPR-1 production decline curve through 1983 and as now projected through 1990, assuming continued production at MER.

Since October 1, 1983, DOE has sold approximately 90,200 barrels of oil per day of NPR-1 crude oil directly to ten private companies at an average bonus of \$1.99 per barrel over the applicable posed prices. The remaining Government share of NPR-1 production (16,500 barrels of oil per day) and all NPR-3 production (2,750 barrels of oil per day) is continuing to be exchanged under long term contracts awarded by the DFSC. These DFSC contracts began in December 1981 and may continue until November 30, 1986.

Of DOE's 111.2 billion cubic foot share of natural gas produced at NPR-1 in FY 1983, 41.5 billion cubic feet were sold and the bulk of DOE's remaining share used for reinjection to maintain reservoir pressures. As of May 1, 1983, all NPR-3 natural gas production, approximately 7 million cubic feet per day, is being used for reinjection. The natural gas which is reinjected is not lost and can be produced at a later date. Prior to May 1, 1983, the Department sold 382 million cubic feet of natural gas on the open market in FY 1983. As the natural gas is produced with the oil, liquid products (propane, butane, and natural gasoline) are removed and competitively sold.

Of the 237.4 million gallons of liquid products produced at NPR-1 in FY 1983, 189.8 million gallons were sold with the remaining DOE share used or added to inventory. At NPR-3, of the total 5.1 million gallons of liquid products (propane and butane) produced in FY 1983, 5 million gallons were sold competitively, with the remainder used or added to inventory.

FY 1985 BUDGET REQUEST

Active drilling, workovers, chemical treatment, pressure maintenance, and EOR projects comprise the foundation upon which we rest our plans for long-term economic production from NPR-1 and NPR-3. Increased emphasis on more efficient operations has resulted in reductions in contractor operator staffs at both Reserves. This emphasis will be continued in the future. To this end, the FY 1985 budget requests funding of \$223,804,000 to provide for continued production of the Reserves at their maximum efficient rates. Funds are requested for the Oil Shale Reserves to continue land management activities, secure Ruedi Reservoir water rights for eventual NOSR-1 development, and continue the natural gas protection plan at NOSR-3.

NPR-1 and NPR-2

The budget request for NPR-1 and NPR-2 is \$228,848,000. Funding is requested in four categories: Operations and Maintenance (\$129,635,000); Development Drilling (\$39,000,000); Development Facilities (\$50,212,000); and Exploratory Drilling (\$10,000,000). The requested amount includes a deferral of \$39,000,000 from the FY 1984 appropriation to fund the Development Drilling program in FY 1985.

Funding for Operations and Maintenance will be used to support the normal, day-to-day activities necessary to continue the maximum efficient rate of production at NPR-1. Major activities funded in this category include Production Operations (\$62,618,000); Remedials (\$22,910,000); and Gas Operations (\$14,718,000). Production Operations provides for maintenance and repair of pipelines, tank settings, pumps, and other equipment used to collect, store, and distribute oil and gas; road maintenance; maintenance of water injection systems; maintenance and repair of the electrical distribution system; and other related activities. The focus of activities will be directed towards secondary and tertiary recovery methods, and increased maintenance for aging facilities and wells.

Remedials provide for the major well work required to maintain existing wells in optimum producing condition. This includes increasing the production of wells in decline and restoring former producing wells to production. The types of remedial actions to be performed include recompletions, gas/oil ratio control, well stimulation measures, artificial lift installations, and casing failures. The FY 1985 request provides for major well work to be done on 295 wells, an increase of 115 over FY 1984. Remedial work in FY 1985 and the out years will concentrate efforts on converting wells which formerly flowed naturally to artificial lift. Additionally, well stimulations and recompletions will be required to maintain production due to declining pressures in the various reservoir pools.

Gas Operations provides for operation and maintenance of all gas plants, gas injection wells, field compressor units, dry gas production, and the liquid products loading rack. It is estimated that these facilities will process approximately 350 million cubic feet of natural gas and 635 thousand gallons of liquid products per day. Major gas plant and compressor repairs effected in FY 1984 will not be required in FY 1985. The request for Operations and Maintenance also includes funding for drilling supervision, technical services, administrative support, and the operator fee.

Development Drilling provides for the drilling of all development wells at NPR-1. This includes water and gas injection wells in addition to producing wells. Along with securing additional production, this program is designed to maintain reservoir and pool performance through pressure maintenance, and to further define reservoir limits. The FY 1985 budget request provides for the drilling of 58 wells. In making this request, technical evaluation of the field has determined that the primary drilling program is essentially completed, which resulted in the reduction of development drilling in FY 1984 from that originally programmed, and that the future emphasis of field development must be directed to secondary recovery methods.

The Development Facilities category provides funding for the construction of facilities in response to changing field conditions and requirements such as declining reservoir pressures, increased water and gas produced with crude oil, the use of secondary and tertiary recovery methods, and environmental and safety requirements. This includes such items as conversion of flowing wells to artificial lift, conversion of collection facilities from high to low pressure systems, modification of waste water disposal systems, and steam generation and injection facilities for the initiation of EOR projects.

The Exploratory Drilling request provides funds for initiating drilling of a deep test well. The higher priority exploration of the shallower zones has essentially been completed. The deep test will provide confirmation of potential additional reserves and allow for the testing of four different zones upon completion of drilling. The funds requested will provide for drilling to an initial 14,000 foot depth, with the anticipation that the well will be completed in FY 1986 to a depth of 25,000 feet.

NPR-3

The FY 1985 budget request for NPR-3 is \$22,661,000 and provides funding for Operations and Maintenance (\$19,166,000); Development Drilling (\$2,245,000); and Development Facilities (\$1,250,000). This represents a substantial decrease from the FY 1984 budget due principally to more efficient operations, limited development drilling and a more modest schedule for EOR development in the Shannon Zone. This request includes the normal operation and maintenance activities with reduced costs for well servicing and operator personnel, limited drilling in the deeper zones, and a limited 30-acre expansion of the EOR pilots to allow for further evaluation and testing before implementing a full-scale expansion program. Successful application of an EOR process is expected to increase recoverable reserves at NPR-3 substantially.

NAVAL OIL SHALE RESERVES (NOSR)

The budget request for the NOSR is \$5,576,000. In addition to continuing land management activities, this provides for the acquisition of water rights from the Ruedi Reservoir as a backup source to the Colorado River at such time as

NOSR-1 is developed, and for the drilling of 6 gas wells at NOSR-3 to protect the Government's natural gas resources.

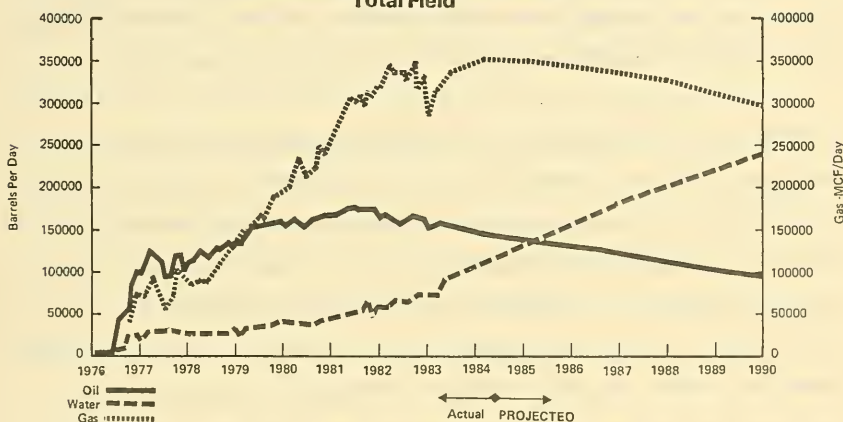
PROGRAM DIRECTION

Funding is also requested for Program Direction salaries, benefits, travel, and other related costs to support 119 full-time equivalent employees and the 8 military personnel assigned to the program. The FY 1985 budget request for this category is \$5,769,000.

The Department of Defense allocated 5 additional military positions to NPOSR to help alleviate the critical manpower shortage in petroleum engineering. This brings to 8 the number of military personnel currently working with NPOSR, and includes Captain Smith and 2 other Naval officers, as well as 3 Air Force and 2 Army officers. I am most pleased with the capability of these young officers.

Mr. Chairman, this concludes my prepared statement. I would be glad to answer any questions.

**Elk Hills Oil Field
Calendar Year Production Curve
Total Field**



SUPPLEMENTARY STATEMENT

Mr. Chairman and members of the Subcommittee. It is my pleasure to appear before you today to discuss the status of the Department's plans with respect to the distribution capability of the Strategic Petroleum Reserve (SPR).

Specifically, I would like to bring you up to date on the Department's response to recent major developments in the oil industry which affect the distribution of SPR oil and to share with you our current thinking about the types of actions which we may need to take to accommodate the continuing changes in patterns of crude oil logistics in the United States.

The Department recognizes the importance of having the capability to distribute SPR oil efficiently and on a timely basis into the U.S. petroleum system during severe energy supply disruptions.

Secretary Hodel has recently stated his belief that, in a major disruption, the early sale of SPR oil in large volumes ordinarily is the best policy for SPR use. This policy makes it possible to replace rapidly some oil lost because of a disruption and, therefore, to reduce price increases while worldwide supply and demand reach equilibrium.

The decision on when to use the SPR and at what rates will need to be made at the time of a particular interruption based on a number of factors. Our task in preparing for a supply disruption includes securing the capability to respond to a broad range of possible circumstances, such that the SPR use decisions are not unduly constrained by physical limitations on distribution capability.

In 1979, in SPR Plan Amendment 3, the Department projected the ability to distribute SPR oil at a maximum initial rate of 1.7 million barrels per day when Phase I facilities were filled, and established the goal of 3.5 million barrels per day of distribution capability when Phase II was complete in 1986. Phase III plans called for a further increase in SPR drawdown capability to 4.5 million barrels per day upon completion of the 750 million-barrel reserve, now scheduled for 1990. That ultimate Phase III distribution rate goal, or any other goal requiring the drawdown and distribution of SPR oil at high rates, represents, by any measure, a substantial logistical challenge.

To put high distribution rates in context, the total crude oil production onshore and offshore of the states of Texas, Louisiana, Arkansas, Mississippi, and Alabama (Petroleum Administration Defense District III) was approximately 4.1 million barrels per day in 1983. Thus an SPR drawdown at a rate of, say, 4.5 million barrels per day, would more than double the domestic crude supply in this Gulf Coast area.

At the present time, the Phase I distribution rate goal has been achieved; as of January 1, 1984, the SPR inventory could be distributed at a rate of 2.1 million barrels per day for three months, after which the drawdown capabilities decline

as a result of reduced inventory levels. While the Department has confidence in these current capabilities, we are concerned that recent developments in the oil industry could constrain the potential future growth in these capabilities.

Plans for SPR development have always been based on making maximum utilization of existing commercial distribution systems, thus limiting, to the greatest extent possible, the need for direct Federal development and ownership of distribution facilities. Each of the SPR sites is located near and connected by pipeline to a distribution terminal providing access to one of the major interstate crude oil pipelines (Seaway, Texoma and Capline), tanker outloading facilities and local refineries. SPR storage sites are accessible to private sector petroleum transportation systems that move significant amounts of imported crude oil during non-disruption periods. During a disruption, the loss of foreign crude imports would create spare capacity in these private systems, capacity which SPR oil could then use. It would be the private sector's responsibility to make the transportation arrangements from SPR terminals for oil it had acquired from the SPR. While this program concept minimizes the Federal costs for developing the Reserve, major shifts in private sector crude oil transportation patterns, unless accompanied by complementary changes in SPR configuration, could affect future distribution capabilities.

SPR distribution rate capabilities could be limited by three primary factors:

- (1) on-site drawdown capabilities, (2) terminal throughput constraints, or
- (3) the capacities of private sector crude distribution systems.

During recent months, the Department has conducted an analysis of SPR distribution capabilities addressing each of these factors. Based on our analysis and on the successful tests of on-site drawdown capabilities, we have concluded that current and projected SPR site drawdown capabilities will not preclude our achieving our distribution rate goals. However, we have identified a number of limitations to terminal throughput and private sector crude transportation systems which, if no changes are made, will inhibit our ability to achieve the SPR distribution capabilities initially conceived for Phases II and III of the program. We will continue to explore these items in the context of

the broader trends in the oil market impacting both producing and consuming nations.

During the past four years, there have been major changes in the level of crude oil imports and their distribution within the United States. U.S. consumption of petroleum products declined by 18 percent from 1979 to 1983. Since domestic production and refined petroleum product imports remained relatively stable, the decline in consumption was reflected as a proportionately higher 53 percent decline in net U.S. crude imports, exclusive of SPR fill. Refineries in the Midwest area of the United States have reduced their crude oil imports by 65 percent during this same period, with lesser reductions occurring on the East Coast and along the Gulf Coast.

The SPR was designed based on import level and distribution pattern projections made in the mid to late 1970's that the Midwest refinery centers would represent a major source of demand for SPR oil, which could be supplied through the three major interstate pipelines to that area. The disproportionately large reduction in use of foreign crude by these refining centers, coupled with reductions in refinery capacity, has resulted in a shift in the likely demand for SPR oil. This reduced demand has also resulted in the sale of the Seaway and the Texoma interstate crude oil pipelines. Both pipelines are now planned for conversion for use in natural gas carriage.

Concurrent with these downward trends in Midwest refining and crude imports, there has been a continuing trend toward an even more significant role for Gulf Coast refining in the overall U.S. petroleum system. This area, termed Petroleum Administration for Defense District (PADD) III, not only produces more domestic crude oil than required for local product demand, but also its refiners receive nearly half of the crude oil imports to the 50-state area, for refining into products transported by pipeline and waterborne method to other portions of the United States. Furthermore, it receives a significant share of the Alaskan crude oil which is transported through Panama and supplies domestic crude to refining centers in other regions as well. During 1983, Gulf Coast area refiners supplied, on a net basis, over three million barrels per day in refined products to other portions of the United States, principally the East Coast area.

At this point, it may be worthwhile to note that we continue to believe that centralized crude oil storage remains an effective and efficient way to serve U.S. oil consumers during a petroleum supply shortfall. In December 1982 we provided the Congress with a comprehensive assessment of the Regional Petroleum Reserve concept. In that report, we reaffirmed the position of prior Administrations that decentralized storage of refined products would not be as cost-effective an approach to strategic oil storage. Our current analysis underscores the high degree of integration among the various parts of the U.S. oil market in terms of interregional transfers of both crude oil and refined petroleum products. With an integrated market, the benefits of strategic oil stockpiling will be experienced by all sectors and regions whether or not they are direct recipients of SPR crude oil.

Because of the growing relative importance of Gulf Coast refining activity, the SPR sites are well situated. However, there are major refining centers within the Gulf Coast which, currently, the SPR could only serve through waterborne transportation. Due to terminalling constraints and other transportation factors, we estimate that if we made no further changes between now and the end of the decade, we could be limited to an SPR distribution rate capability of approximately 2.4 million barrels per day.

Due to the changes which have occurred in both the level and pattern of U.S. crude oil imports, as well as the potential for future changes in these and other factors such as interruption threats and the preparedness of oil consuming nations, the Department faces the need for an ongoing process of both reexamination of future requirements for SPR distribution capabilities and selection of cost-effective measures for improving the physical accessibility of the market to SPR oil.

Over recent months, the Department has initiated parallel efforts to address these questions. As part of the long range program and financial planning process, my office has been working with other parts of the Department to identify alternative ways of improving future SPR distribution capabilities, to narrow the range of proposals requiring more intensive pre-implementation

planning. I will be sharing some of the preliminary results of this internal DOE analysis with you this morning.

Concurrent with our internal Departmental review of these questions, we have underway a major study effort by the National Petroleum Council (NPC). The NPC is assessing all aspects of the government/industry interface relative to SPR oil distribution, including not only the SPR crude oil delivery issues we have addressed but also further downstream issues involving crude quality, refinery ability to process SPR crude oil, transportation requirements for domestic crude oil during a cutoff of foreign supplies, and requirements for transportation of refined products among various parts of the Nation.

From my role as Government Co-Chairman of the NPC Study Committee and from reports from DOE staff working with the Council's study groups on a day-to-day basis, I am pleased to report that an able and dedicated industry team has been assembled to work on this important topic. We look forward to receiving an objective industry appraisal of our distribution capabilities, and we also believe that industry will learn a great deal about the SPR and be in a better position because of this study to perform its responsibilities with respect to purchase and transportation of SPR crude oil.

Our internal departmental analysis, which is preliminary at this time, has resulted both in an initial diagnosis of our current and projected circumstances, which I presented earlier, and in the identification of some opportunities for alleviating some of the projected constraints to the future growth in SPR distribution capabilities. In all cases, much more work is needed before we can make final implementation decisions. In some cases, the requirements for preimplementation work are extensive and time-consuming, such that we have chosen to commission the necessary preliminary work to avoid mortgaging the opportunities for timely implementation at a later date.

The first major category of enhancements we are currently considering is a pipeline connection from the Bryan Mound site to a commercial terminal in the

Texas City area, less than 50 miles away, while retaining marine terminal capability in the Freeport, Texas area. This would permit sales to Houston area refineries by pipeline as well as added tanker outloading capability to the Gulf of Mexico. It would expand future Bryan Mound distribution capabilities to over one million barrels per day, in line with the drawdown capabilities we expect to have at that site when oil fill is complete.

Moving from west to east, the second major enhancement under consideration would involve some upgrades to the current and planned piping configurations in the Nederland, Texas area, both to expand our throughput capabilities at the Sun Terminal to which we are now connected and to provide access to additional marine terminal capability in that vicinity.

The third category of enhancements would involve additional tie-ins from our West Hackberry site to the Lake Charles, Louisiana area, both to provide overland access to refineries in this vicinity and also to provide added tanker outloading capacity.

Taken together, these enhancements, if pursued to conclusion, would provide a distribution capability of approximately 3.5 million barrels per day when Phase II is complete, and of approximately 4.0 million barrels per day when Phase III is complete.

It is important to note these measures provide a distribution capability which is qualitatively different from the original plans. They provide more flexibility in a variety of ways, including multiple ways to move oil from our two largest storage sites, Bryan Mound and West Hackberry. We would also have more individual points of custody transfer during a drawdown and would be using more ship channels for marine transportation.

As I have described earlier, there have been major changes in the petroleum industry during the past four years. The industry remains dynamic today, and we have to assume that there will be further changes during the coming six years as we complete development of the 750 million-barrel system.

Furthermore, the recent reductions in U.S. crude oil imports, and the

accompanying reductions in private sector oil transportation capabilities may make it neither cost effective nor necessary to achieve the maximum rates called for in earlier periods when conditions were different. Therefore, our current thinking is that we will need to evaluate SPR distribution capabilities on a continuing basis, and place priority on implementing those changes required to accommodate the incremental increases in drawdown capability which will occur over coming years.

It is possible that we could commence work on one or more of these distribution enhancements during the coming fiscal year, within the Administration's overall FY 1985 budget proposals for the SPR. This possibility is under active review, and when we have completed this review, we will provide a more detailed description of our proposals to the Congress.

While we will proceed with more detailed planning for some enhancements, we would not expect to make major final commitments of resources to these enhancements before the NPC review is complete later this year.

In fact, I have sent a letter to the NPC study committee requesting that its report include specific recommendations on the concept I have just outlined.

The need to make planning decisions in advance of final NPC recommendations is partly attributable to the dynamic nature of the petroleum industry. For example, the sales of both the Seaway and Texoma pipelines have been announced since the Secretary requested the NPC to undertake this study last November. We would expect to receive both industry evaluation of our plans and NPC advice on the types of further enhancements we should consider in the future and on the full range of other subjects directly related to the distribution of petroleum in the United States during a cutoff of foreign supplies. Therefore, the NPC review remains an important element of our overall emergency preparedness planning.

In summary, the SPR inventory can now be distributed at an initial maximum rate of 2.1 million barrels per day, but we have identified a number of constraints to the future expansion of this distribution rate capability. Many of these constraints are attributable to recent trends in the U.S. oil transportation network, rather than difficulty in actually pumping the SPR oil from underground caverns to the commercial distribution facilities at the planned rates. Alternatives for alleviating off-site constraints have been identified, and the Department is proceeding with detailed preliminary planning on certain proposals which will enhance SPR distribution capabilities in both qualitative and quantitative terms. In deciding these matters, the Department has sought industry advice through the National Petroleum Council, and industry has responded with an energetic and well-conceived effort. We believe there is substantial reason to be optimistic about our ability to make the changes required to permit an effective distribution of the SPR oil during an emergency.

STATEMENT OF HELMUT A. MERKLEIN

INTRODUCTION

Mr. Chairman and members of the Subcommittee, it is my pleasure to appear before you today in support of the President's budget proposals for FY 1985 for the Office of Energy Emergencies. I am accompanied by Mr. Barton R. House, Deputy Assistant Secretary for Energy Emergencies.

Under a recent functional realignment, the Department of Energy's (DOE's) energy emergency program is now organized under the Assistant Secretary for International Affairs and Energy Emergencies. This realignment reflects the close relationship of DOE's emergency planning activities to international energy security and the need to monitor international events closely to ensure effective emergency response plans. Let me assure you that the objectives and programs in the FY 1985 budget request for the Emergency Preparedness program as a whole are unchanged, but will be accomplished more efficiently.

The budget for Energy Emergencies was developed in accordance with the fourth National Energy Policy Plan (NEPP-IV), published in October 1983, and fully supports the goals and strategies set forth in that document. The overall goal of our national energy policy is to foster an adequate supply of energy at reasonable costs. The policy recognizes that an "adequate supply" requires flexibility in the energy system, with no undue reliance on any single source of supply. The goal of "reasonable costs" calls for economic efficiency within the energy system, so that energy consumers - individuals as well as commercial and industrial users - are not penalized by economic rigidities that may be introduced into the system by inflexible governmental regulation.

The strategies for achieving DOE's energy goal are:

- o To minimize Federal control and involvement in energy markets while maintaining public health and safety and environmental quality.

- o To promote a balanced and mixed energy resource system.

The overriding goal of the Department's Energy Emergency program is to reduce the Nation's vulnerability to energy supply disruptions. If such a disruption were to occur, the Department would attempt to mitigate the effects as much as possible through the timely implementation of those plans and programs I intend to discuss today.

This Administration has abandoned previous policies of extensive Federal intervention such as oil allocation, price controls, and mandatory demand restraint measures, because recent historical evidence, obtained during the 1973/74 and 1979 shortages, confirmed that interventionist policies tend to aggravate and prolong shortages.

DOE's basic approach for dealing with disruptions is to rely primarily on the allocation efficiencies of the market place. We augment this strategy by one important non-market measure, the Strategic Petroleum Reserve (SPR).

Stimulating public understanding of the need to plan for energy emergencies and to facilitate effective communications during a crisis will continue as a major program priority. An important part of this effort is to rely on policies that encourage suppliers, consumers, and State and local governments to be adequately prepared to deal with contingencies. We are continuing our close cooperation with the International Energy Agency (IEA) to assure preparedness among the members during a major supply disruption as well as encouraging other IEA member nations to build emergency stocks.

The reaction of millions of decision makers throughout the country outside the Federal Government is the heart of an emergency preparedness strategy, and so our efforts to put people on notice that they should prepare for emergencies is a crucial part of our effort. In addition, we will continue our emphasis on actions to involve private sector organizations, individuals, and State and local governments through such innovative activities as a voluntary emergency fuel stocks availability program which is designed to help match available private sector fuel oil supplies with urgent needs. We are now in the process of recruiting private sector organizations to participate in this program under DOE coordination. The DOE Electronic Mail System (DIALCOM) continues to serve State and local officials, as well as the private sector, to facilitate information exchange on critical energy emergency preparedness issues. DIALCOM connects the Department of Energy, State Energy Offices, several public interest groups, and selected National Defense Executive Reservists through a computerized electronic mail communications network. Finally, we are assessing the vulnerability of national energy systems to sabotage and accidents.

FY 1984 ENERGY EMERGENCIES PROGRAM

Highlights of FY 1984 Energy Emergencies activities and expected accomplishments are as follows:

During FY 1984, the Energy Emergency Preparedness program is continuing a number of activities to complement the free-market approach to emergency preparedness. These activities include:

- o support for international energy security programs including:
 - technical support for International Energy Agency and NATO energy emergency programs
 - a number of classified energy security activities assigned by the National Security Council
- o development of strategies for possible utilization of the Strategic Petroleum Reserve including:
 - consideration of conditions when an early drawdown of the SPR is advisable to provide a calming effect on the market
 - participating in the planning and physical testing of the drawdown capabilities at SPR storage sites

- in conjunction with other DOE offices, testing and revision of administrative and management procedures relative to SPR oil sales
 - reviewing existing legislation to determine the legality of SPR test sales
- o support for National defense preparedness including:
 - continued major assessments of defense energy needs by the industrial sector to ensure that critical needs are met in the event of national emergency
 - further planning for implementation of the Defense Production Act which requires the ability to exercise priority and allocation authorities in support of defense needs in a national emergency
 - continued participation in a number of classified defense readiness/continuity of government exercises such as REX-84 designed to ensure the ability of the Department of Energy to support mission requirements in the event of a national emergency
 - DOE support for Emergency Mobilization Preparedness Board programs that coordinate Federal Government emergency preparedness programs and priorities
 - o maintenance of an energy emergency operations capability which will support the Department's ability to manage energy emergencies through management information systems, a response coordination center, and operation of the Departmental Emergency Coordinator function
 - o analyses of economic response measures in cooperation with other Federal Agencies designed to assure an appropriate Federal response to severe energy supply disruptions
 - o provide emergency public information to ensure that key Congressional members, the public, state & local governments, private industry and groups are adequately informed of government policies and programs in the event of an energy emergency
 - o maintain emergency executive manpower reserves that will provide the capability to augment the DOE staff with key private sector experts in the event of a national emergency
 - o develop short-term and periodic risk assessments designed to provide accurate information on energy supply conditions
 - o state and local coordination in order to include these governments in the energy emergency policy development and implementation process
 - o vulnerability analyses of the energy supply network which, when completed, will provide a basis for the understanding of risks from potential disruption by sabotage and acts of terrorism

Our international activities include working with the International Energy Agency to fully assess our strengths and weaknesses as revealed by past tests, including the Fourth Allocation Systems Test (AST-4) held during FY 1983. We are now preparing for the AST-5 test, currently anticipated to be held at the end of FY 1985. Additionally, we are continuing our efforts to develop management plans for the U.S. Government's National Emergency Sharing Organization.

FY 1985 EMERGENCY PREPAREDNESS BUDGET REQUEST

The FY 1985 budget request for the Office of Energy Emergencies is \$6.2 million, an increase of \$990,000 over the FY 1984 appropriation. A summary follows:

	(\$ in thousands)	
	FY 1984	FY 1985
	<u>Appropriation</u>	<u>Request</u>
Emergency Planning	\$ 474	\$ 890
Emergency Operations	326	676
Program Direction	<u>4,430</u>	<u>4,654</u>
Total Emergency Preparedness Operating Expenses	\$ 5,230	\$ 6,220

During FY 1985, more emphasis will be placed on energy security-related preparedness activities, internationally and domestically. Our experiences in the conduct of energy emergency preparedness tests and exercises will allow us to provide an integrated approach to emergency planning and operations, while targeting those areas that may require additional procedures or policies. In carrying out these objectives, the program will continue its emphasis on the maintenance of in-house expertise for planning and operations, thereby limiting the need for outside contract support. I will now provide a description of activities for each major component of emergency preparedness.

EMERGENCY PLANNING

The FY 1985 budget request for Emergency Planning is \$890,000, an increase of \$416,000 over the FY 1984 appropriation. The request will provide support for development and use of econometric models for assessing energy emergency impacts and SPR use options; energy emergency test and exercise support services for FY 1985 preparedness exercises; and classified international energy security-related tasks as assigned by the National Security Council and the Emergency Mobilization Preparedness Board.

Enhancing Supplies. We intend to continue planning and analysis for use of the SPR including implementation of the SPR Drawdown Distribution Plan with potential development of rulemakings and revisions to operations manuals, and the possible conduct of an SPR sales test. FY 1985 SPR exercises will benefit from lessons learned as a result of the Distribution Readiness Exercise (DIREX B) held during FY 1983.

Supporting International Energy Security Activities. In order to ensure that the United States is capable of meeting its international energy obligations, we will continue to support various IEA, NATO and other international energy emergency preparedness programs. During FY 1985, support will include preparation for and conduct of the IEA's Fifth Allocation System Test (AST-5), which will again serve as an opportunity to train personnel for energy emergencies, test communication systems and procedures, and further enhance the IEA's and the U.S. Government's energy emergency planning process.

Mitigating Impacts. In addition to our support of U.S. involvement in the IEA, projects designed to evaluate potential market oriented mitigation responses to severe energy supply disruptions will be continued during FY 1985.

EMERGENCY OPERATIONS

Our FY 1985 request for Emergency Operations is \$676,000, an increase of \$350,000 over the FY 1984 appropriation. This request provides for support for automated data processing services provided by the Energy Information Administration for legislatively mandated electric power reliability data. It also provides for contractor support for the development of the Energy Situation Reporting System and private sector commercial time-sharing data sources; contractor support for energy systems vulnerability assessment; and support for electronic mail service for communication with State and local governments, as well as the private sector. The requested increase is

required because of major tests scheduled for FY 1985 with increased requirements for automated data processing support and communications systems. An increase is also requested for energy systems vulnerability analyses contract support.

Supporting Defense Programs. In order to ensure that the critical energy needs of the Department of Defense and related defense and national security agencies are met, we will work with other Federal Departments and Agencies in the development of procedures for responding to Defense Production Act, priority assistance or allocation, and Jones Act waiver requests. As required by law, we intend to see that these authorities are used only when absolutely essential. We will also continue analysis of defense energy needs to support various energy emergency scenarios, particularly potential impacts on the industrial sector. Additionally, we will be participating in a number of national defense readiness exercises which are held biannually.

Developing Essential Information. The Department is continuing activities designed to develop a strong information capability. This includes the capability to: (1) adequately inform the Congress, public, industry, and State and local governments concerning the nature and projected impact of a supply interruption, (2) publicize the Government's response strategy, and (3) build public support for this strategy. We have found the DIALCOM Electronic Mail system available to States, local governments, and private organizations, to be of great benefit in our information communication and dissemination activities. In fact, the AST-4 exercise in FY 1983 provided an excellent opportunity to simulate emergency public information activities with all fifty states, a number of Federal agencies, private sector organizations and public interest groups.

Assessing Energy Supply System Vulnerability. Since we recognize that domestic energy systems could experience unexpected disruptions, including those caused by sabotage, we are continuing to assess the vulnerability of the electric utility network, natural gas pipeline system, petroleum pipelines, and other aspects of the nation's energy systems. We completed a classified vulnerability assessment in 1983. In FY 1984 we are continuing selected classified studies of the electric supply system to vulnerabilities. For FY 1985, we intend to continue our emphasis on vulnerability studies of major urban area electrical systems to potentially disruptive actions, and to continue our examination of the vulnerability of the Strategic Petroleum Reserve and major oil product and crude pipelines, offshore facilities, and major urban area natural gas pipeline systems. Additionally, we will continue to produce a number of short-term and periodic risk assessments based upon changing domestic and international conditions. An important tool in furthering risk assessment activities is the continued development of the Energy Situation Reporting System, which is designed to provide status information on various aspects of the national and international energy supply system, through further refinements of data base software and hardware.

PROGRAM DIRECTION

The balance of the request includes \$4,654,000 for program direction costs, representing salaries and administrative support for 72 FTE's, an increase of \$224,000 over the FY 1984 appropriation. This increase is required for salaries and benefits over the FY 1984 level.

This concludes my formal statement on our FY 1985 budget request. I will be pleased to answer any questions you may have.

INTRODUCTION OF ASSOCIATES

Mr. VAUGHAN. Mr. Chairman, I have with me this afternoon, on my far left—your right—Mr. Donald Bauer, who is my principal deputy. It is his first appearance before this committee since the naval petroleum reserve and strategic petroleum reserve have been assigned to fossil energy. And to his right, between us, is Mr. Richard Furiga, the Deputy Assistant Secretary for the strategic petroleum reserve. At a point in the hearing, when appropriate, Captain Smith, the commanding officer of the naval petroleum and oil shale reserve, is here and he will join us at the table.

Senator McCLURE. Thank you very much, Mr. Secretary.

Mr. MERKLEIN. I plan to testify on my own. If I get into trouble, I will call on my associates, and, if I do, I will introduce them.

Senator McCLURE. Very well. I'll know when you are in deep trouble. [Laughter.]

SPR FILL RATE

In finalizing the fiscal year 1984 Interior Appropriation bill the Congress clearly stated its strong desire, if not its intent, to maintain a fill rate of 186,000 barrels per day through both fiscal year 1984 and fiscal year 1985. As we were informed by your office at that time, this fill level would result in the use of virtually all available cavern storage by the end of fiscal year 1985. Is this still the case?

Mr. VAUGHAN. Yes, sir.

Senator McCLURE. If the Congress approves your request to fill at the rate of 145,000 barrels per day, there will remain at the end of fiscal year 1985 available cavern storage for approximately 13.7 million barrels of crude oil. Is your request for 145,000 barrels per day based strictly on budget considerations, or are there other significant reasons the administration desires not to fill to capacity?

Mr. VAUGHAN. I think it is fair to say, Mr. Chairman, the prime reason for the 145,000 barrel-per-day figure is budgetary and the theory is that it will produce 97 percent of storage capacity, and that is not an unreasonable risk to take.

Senator McCLURE. Let me ask the question in a different way, perhaps. Are there some real advantages to the fill rate of 145,000, as compared to other fill strategies of, say, 186,000 in one direction or 123,000 in the other direction?

Mr. VAUGHAN. I think there is an inherent advantage, Mr. Chairman, and that is that it gives us a stability in the outyears. We feel that with approximately a 145,000 per day fill rate from now to the completion of the program, we will be able to do much better planning. We think we will be able to purchase perhaps at better prices because we will know with a higher degree of certainty our crude oil requirements and perhaps we will stop the divergent fill levels we have had the last several years.

Senator McCLURE. Well, isn't that also true if you were to fill at 186,000 per day? What's the down side from a planning standpoint?

Mr. VAUGHAN. I'm going to ask Mr. Furiga to give you those numbers because there is a point at which we actually go down quite a bit.

Mr. FURIGA. Mr. Chairman, if we were to start with fiscal year 1985 and go out to completion in 1990 for the 750 million barrel program, the average daily rate in those years is about 146,000 to 147,000 barrels a day. One hundred forty-five thousand a day means we complete a 750 million barrel program in October or November 1990; and 186,000 barrels a day means June 1990.

Senator McCLURE. Now, would you go over that again, please. You mean 41,000 barrels a day makes 5 month's difference?

Mr. FURIGA. Five or six month's difference. Yes, sir.

Senator McCLURE. In 6 years?

Mr. FURIGA. When you take the fill capacity, yes, we could fill capacity in 1985 to 186,000 a day, but then you get a saw tooth curve where we actually fill the capacity in the outyears for 1 year at 100,000 a day.

Senator McCLURE. That's because of—

Mr. FURIGA. Cavern creation.

Senator McCLURE. All right. What's the down side of having it full?

Mr. FURIGA. At our 145,000 barrels a day, no year would be less than 95 percent.

Senator McCLURE. I understand that. But what's the down side of being full?

Mr. FURIGA. There is no down side.

Senator McCLURE. All right. Thank you. How much more money would you need to meet the 186,000 barrels per day?

Mr. VAUGHAN. \$461 million.

Senator McCLURE. That's in fiscal 1985?

Mr. VAUGHAN. Yes, sir.

Senator McCLURE. Is it reasonable to make the argument that a higher fill rate authorization and appropriation gives you greater flexibility and a greater opportunity to buy at favorable market periods?

Mr. VAUGHAN. I think in theory, Mr. Chairman, I have to answer that question in the affirmative. But we are talking about 15 million barrels so we are not talking about an awful lot. It's still a lot of money, but it's 15 million barrels out of a very large program.

Senator McCLURE. That argument is used both ways, I guess.

Mr. VAUGHAN. As I say, it's not very much.

Senator McCLURE. If it isn't very much, then why do you fuss so much?

Mr. VAUGHAN. It's equivalent to 3 or 4 days of supply, however you want to calculate it. It does save \$461 million of funding, cash flow, if you will, for this year in which the judgment is that the budget is extremely tight and that judgment is I think a sound one—not an unreasonable one.

Senator McCLURE. In creation of the budget request, did the Department make a long-term cost comparison of the various oil fill strategies?

Mr. VAUGHAN. Do you mean by that question, Mr. Chairman, did we run out various scenarios at several fill rates and calculate what we thought it would cost us?

Senator McCLURE. Yes.

Mr. VAUGHAN. Yes; we did that.

Senator McCLURE. Do you have that available and could you make it available to the committee?

Mr. VAUGHAN. We will make it available, yes, sir.

[The information follows:]

COST COMPARISON OF OIL FILL STRATEGIES

One of the most comprehensive long-term cost comparisons of alternative SPR oil fill strategies was the Special Analysis paper dated July 29, 1983 prepared for the record of the June 30, 1983 hearing of the Subcommittee on Fossil and Synthetic Fuels of the House Energy and Commerce Committee, which follows. Three subsequent changes are reflected in the FY 1985 budget request:

- Actual FY 1983 fill rates and costs varied slightly from those predicted in July 1983.
- In enacting the FY 1984 appropriations, Congress established a 186 MBD rate for FY 1984. Options considered in the July 1983 paper provided either higher or lower FY 1984 fill rates.
- The oil price projections used in the July paper are different from those in the FY 1985 budget.

July 29, 1983

SPECIAL ANALYSIS

Strategic Petroleum Reserve Development
and Fill Rate Alternatives

This analysis was conducted at the request of the Subcommittee on Fossil and Synthetic Fuels of the House Energy and Commerce Committee for information on the implications of alternative Strategic Petroleum Reserve (SPR) development policies at the Subcommittee hearing of June 30, 1983.

The Secretary has proposed completing the 750 million-barrel system by early 1991 by sustaining an average fill rate of 145,000 barrels per day after FY 1983. This policy is intended to strike a balance between the desirability of continued expansion of the SPR inventory and the need for fiscal restraint, particularly during the next several years, and reflects the considerable progress the Administration has made in improving SPR protection levels. This paper illustrates some of the considerations, including direct and indirect costs of fill rate alternatives, which contribute to policy judgments on SPR development alternatives. In particular, the analysis concludes that more rapid development rates than the 145,000 barrels-per-day proposed would result in proportionately large increases in near-term Federal spending and borrowing requirements, but would yield proportionately small increases in SPR inventory levels. As Table 9 illustrates, the Administration projects that the long-term Federal borrowing rate will exceed the rate of growth in oil prices, such that savings of \$.5 billion or more in total investment costs could result from selecting a sustained 145 MBD rate in comparison to the other alternatives analyzed herein.

BASELINE ASSUMPTIONS

There are three classes of variables which affect SPR development rates and costs: oil price assumptions, storage capacity schedules, and facilities costs. In general, this analysis employs the baseline assumptions in use in April 1983—after the March update of the FY 1984 budget estimates but before either the July Mid-Session Review or the Department's FY 1985 Internal Review Budget process. This makes these estimates contemporaneous with such other analyses as:

- The Comptroller General's May 5, 1983, deferral report on the "SPR Petroleum Account";
- The General Accounting Office letter report of June 13, 1983, to Chairman Sharp on the financial effects of fill rate alternatives;
- House of Representatives reports on the FY 1983 Supplemental and the FY 1984 Interior and Related Agencies appropriation.

Oil Price Assumptions

Table 1 presents the SPR oil cost assumptions used as the base case in this analysis. These assumptions are derived from Administration forecasts of March 1983, adjusted to include an additional amount for the SPR costs of using U.S.-flag tankers in compliance with the Cargo Preference Act.

Table 1

Strategic Petroleum Reserve Oil Cost Assumptions
(nominal dollars per barrel)

<u>Fiscal Year</u> 1/	<u>Average</u> <u>(\$ per barrel)</u>
1984	\$30.21
1985	31.01
1986	32.65
1987	34.14
1988	35.69
1989 2/	37.29
1990 2/	39.09
1991 2/	40.98

1/ Fiscal year 1983 SPR oil costs for 80.3 MMB (220 MBD) have been estimated by the Department to be \$2,385.8 million or \$29.71 per barrel. This "bottom-up" estimate is used in the financial analysis.

2/ Official Administration forecasts extend only through FY 1988. These future year estimates are based on an assumed extension of the FY 1988 growth rate of 4.5%.

The effects of variances to these assumptions are discussed further below.

It should be noted here that these price projections assume no major supply interruption through the end of this decade. This assumption also underlies all capacity schedule and fill rate information presented below.

Storage Capacity Schedule Assumptions

Table 2 presents the cumulative SPR permanent storage capacity projected for the 610 MMB system (without Big Hill) and for the 140 MMB Big Hill Phase III site if funded in FY 1985. This information is based on technical projections made at the time the FY 1984 budget was formulated, and new schedules are being developed as part of the FY 1985 budget process. In general, the more recent projections suggest the potential for some acceleration in this schedule and the effects of such schedule changes are addressed further below.

Table 2

Strategic Petroleum Reserve Permanent
Storage Capacity Projections
(Cumulative MMB, 1/ End of Fiscal Year)

<u>Fiscal Year</u>	<u>610 MMB System</u>	<u>Big Hill (FY 1985 Funding)</u>	<u>Total</u>
1983	358	0	358
1984	428	0	428
1985	473	0	473
1986	538	0	538
1987	586	7	593
1988	603	50	653
1989	610	74	684
1990	610	140	750

1/ Rounded to nearest million barrels

Facilities Costs

When the FY 1984 budget was being prepared, the estimate-at-completion for a 750 MMB system complete in FY 1989 was as follows:

	<u>(\$ millions)</u>
Phase I	\$ 916
Phase II	757
Phase III	1,191
Non-Phase Specific <u>1/</u>	538
Total	<u>\$3,402</u>

1/ Includes recurring costs through FY 1988.

Within Phase III, the base cost of the 140 MMB Big Hill site was estimated to be \$782 million, excluding management reserve.

Since preparing the above information, the Department has revised its estimates to reflect the following:

- The decision to fill Sulphur Mines cavern 2-4-5, increasing Phase I capacity and permitting deletion of a 10 MMB cavern in Phase III;
- House action to disapprove the proposed deferral of FY 1983 Phase III funds;
- Addition of another year (FY 1989) to the Non-Phase Specific costs as part of the initial planning of the FY 1985 budget; and
- Phase III construction cost savings resulting from favorable procurement experience in early 1983.

The net effect of all of the above changes was that by April a 750 MMB system completed by 1990 was expected to cost \$3,409 million, of which Phase III, now reduced by 10 MMB in capacity, was estimated to cost \$1,135 million. The comparable reestimate for facilities costs for a 750 MMB system completed by 1989 was \$3,339 million. The net estimated reduction of \$70 million for the one-year acceleration was attributable to avoidance of an assumed rate of cost escalation of 10 percent on the remaining portions of Big Hill. Since disapproval of the deferral would result in further capital investment in Big Hill in FY 1983, the additional net facilities costs of Big Hill development were estimated at \$765 million, if completed by 1990.

Since preparation of this April estimate, further Big Hill construction cost savings potential has been identified, and revised estimates are currently under review within the Department.

Combining April Baseline Assumptions

Table 3 presents the estimated capital (facilities and oil) costs for two system alternatives based on the oil price information in Table 1, the schedule information in Table 2, and the facilities cost estimates described above:

Table 3

SPR Capital Costs (nominal dollars in millions)

	<u>Facilities</u>	<u>Oil</u>	<u>Subtotal Direct Costs</u>	<u>Interest 2/</u>	<u>Total</u>
750 MMB (1989) 1/	\$3,339	23,480	\$26,819	\$24,114	\$50,933
750 MMB (1990) 1/	3,409	23,711	27,120	23,747	50,867
Effect of 1989 to 1990 Delay	+ 70	+ 231	+ 301	- 367	- 66

- 1/ Fill-to-capacity in all years. FY 1989 completion option advances Big Hill capacities on Table 2 by one year.
- 2/ Represents interest accrued from 1977 through 1993 at short-term Treasury borrowing rates associated with the January 1983 Administration economic forecast.

The net direct cost of Big Hill is estimated at \$5.4 to \$5.7 billion for facilities and oil. The net effect of a one-year delay in completing the 750 MMB system is estimated at \$301 million, in terms of direct costs excluding Treasury borrowing, of which \$70 million is for Big Hill development costs. These estimated costs of a one-year slippage are below those previously estimated in January (\$80 million) because of downward revisions to facilities cost assumptions. Due to further cost savings potential now under review and to downward revision in inflation rate projections, it is likely that the net effect on a one-year delay in Big Hill funding will be reduced below the \$70 million estimated in April.

A further consideration in assessing SPR development alternatives is the requirement for Treasury borrowing to finance the different investment schedules. A recent Department analysis employing Administration projections of short-term Treasury borrowing rates concluded that a 750 MMB system completed in 1989 would increase cumulative Federal investment costs through 1993 by \$66 million compared to completion by 1990. As Table 3 illustrates, the reduction of \$301 million in direct costs would be more than offset by the increase of \$367 million in interest costs. Using higher long-term rates could expand this added investment cost for 1989 completion to over \$100 million.

FURTHER OPTIONS

Numerous further options can be constructed to reflect either changes in fill policies or changes in oil price assumptions or both. Changes in facilities cost and schedule are also possible, but for purposes of this analysis we are maintaining the facilities assumptions associated with the 750 MMB (1990) case presented in Tables 2 and 3 unless otherwise noted.

Fill Rate Options

Four additional fill rate options have been developed for consideration:

- A. The sustained 145 MBD proposal reflected in the Secretary's June 30, testimony.

B. A 220 MBD rate after FY 1983 until 500 MMB is reached, with a fill-to-capacity policy thereafter.

C. A sustained 220 MBD rate through completion of 750 MMB.

D. A sustained 240 MBD rate through completion of 750 MMB.

Table 4 presents the fill schedules associated with each of these questions in comparison to the storage capacity projections for a 750 MMB (1990) system. In all cases, a 220 MBD fill rate in FY 1983 is assumed.

One can conclude the following from Table 4:

- Alternative A (145 MBD) leaves somewhat less than 5 percent of permanent capacity unfilled in any given year;
- The 220 MBD-to-500 MMB policy (Alternative B) results in achieving 500 MMB by the end of FY 1985. Since, as presented in Table 2, Big Hill capacity would not become available until FY 1987 (with FY 1985 funding) the timing of Big Hill has no impact on whether interim storage would be required to achieve a 500 MMB level at 220 MBD. The Secretary alluded in his June 30 testimony to new capacity projections under review in the Department as well as to the potential for on-site interim storage. If the new capacity projections prove valid and on-site interim storage is implemented, the potential exists for achieving Alternative B with no off-site private interim storage.
- Alternative C (sustained 220 MBD rate) completes a 750 MMB system by 1988, two years ahead of permanent capacity. Significant amounts of private interim storage would be required even if more optimistic capacity projections are valid and on-site interim storage options are exercised.
- Alternative D (sustained 240 MBD rate) also achieves 750 MMB by 1988, but requires even more interim storage in the FY 1985-FY 1987 period than Alternative C.

FINANCIAL REQUIREMENTS OF ALTERNATIVE FILL RATES

Baseline Price Assumptions

Table 5 converts the annual oil fill alternatives set forth in Table 4 into estimates of annual costs using the baseline price assumptions set forth in Table 1. The direct oil costs are derived by simply multiplying the annual fill in MMB by the average price per barrel. The interim storage costs are derived by assuming an average storage cost of \$.30 per barrel per month (\$3.60 per barrel, per year). Oil in interim storage at the end of one fiscal year is assumed to have been in storage for 6 months of that year and 6 months of the succeeding year. Thus, the computation for FY 1985 interim storage costs under Alternative D was derived as follows:

(\$ millions)

MMB in interim storage for first 6 months of FY 1985 (from end of FY 1984)	18	
Cost per barrel for 6 months	x \$1.80	
First half cost		\$ 32.4
MMB in interim storage for last 6 months of FY 1985 (for end of FY 1985)	60	
Cost per barrel for 6 months	x \$1.80	
Second half cost		\$108.0
Total Cost (millions)		\$140.4
Rounded		\$140

Annual oil cost information is not synonymous with annual budget authority and budget outlay requirements. Budget authority is required in advance of oil purchases and the Department follows the approach of seeking sufficient budget

Table 4

STRATEGIC PETROLEUM RESERVE
Oil Fill Rate Options

	Through FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991
Cumulative Capacity (MMB) ^a	358	428	473	538	593	653	684	750	750
A. Sustained 145 MBD									
Average rate (MMB)	145	145	145	145	145	145	145	145	59
Annual Fill (MMB)	52.9	52.9	52.9	52.9	52.9	52.9	52.9	52.9	21.5
Cumulative Fill (MMB)	358	411	464	517	570	623	676	729	750
Over (Under) Capacity	0	(17)	(9)	(21)	(23)	(30)	(8)	(21)	0
B. 220 MBD to 500									
Average Rate (MMB)	220	168	168	104	151	164	85	181	0
Annual Fill (MMB)	80.3	61.5	61.5	38	55	60	31	66	0
Cumulative Fill (MMB) ^a	358	439	500	538	593	653	684	750	750
Over (Under) Capacity	0	+11	+27	0	0	0	0	0	0
C. 220 MBD to 750									
Average Rate (MMB)	220	220	220	220	220	193	0	0	0
Annual Fill (MMB)	80.3	80.3	80.3	80.3	80.3	70.6	0	0	0
Cumulative Fill (MMB) ^a	358	439	519	599	679	750	750	750	750
Over (Under) Capacity	0	+11	+46	+61	+86	+97	+66	0	0
D. 240 MBD to 750									
Average Rate (MMB)	240	240	240	240	240	113	0	0	0
Annual Fill (MMB)	87.6	87.6	87.6	87.6	87.6	41.4	0	0	0
Cumulative Fill (MMB) ^a	358	446	533	621	709	750	750	750	750
Over (Under) Capacity	0	+18	+60	+83	+116	+97	+66	0	0

^aCumulative amounts rounded to nearest million barrels.

Table 5

STRATEGIC PETROLEUM RESERVE
Funding Requirements for Fill Rate Options
Baseline Price Assumptions
(Costs in millions)

	Through FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	Total
Oil Price (\$/BBL)		30.21	31.01	32.65	34.14	35.69	37.29	39.09	40.98	
A. Sustained 145 MMB										
Annual Fill (MMB)	358.2	52.9	52.9	52.9	52.9	52.9	52.9	52.9	21.5	750
Oil Cost (millions)	\$10,332	\$1,598	\$1,640	\$1,727	\$1,806	\$1,888	\$1,973	\$2,068	\$ 881	\$23,913
Int. Stor. Cost (millions)	-	-	-	-	-	-	-	-	-	-
Total Cost	\$10,332	\$1,598	\$1,640	\$1,727	\$1,806	\$1,888	\$1,973	\$2,068	\$ 881	\$23,913
B. 220 MMB to 500 MMB										
Annual Fill (MMB)	358.2	80.2	61.5	38	55	60	31	66	-	750
Oil Cost (millions)	\$10,332	\$2,426	\$1,907	\$1,241	\$1,078	\$2,141	\$1,156	\$2,580	-	\$23,661
Int. Stor. Cost (millions)	-	20	68	49	-	-	-	-	-	137
Total Cost	\$10,332	\$2,446	\$1,975	\$1,290	\$1,078	\$2,141	\$1,156	\$2,580	-	\$23,798
C. 220 MMB to 750 MMB										
Annual Fill (MMB)	358.2	80.3	80.3	80.3	80.3	70.6	-	-	-	750
Oil Cost (millions)	\$10,332	\$2,426	\$2,490	\$2,622	\$2,741	\$2,520	-	-	-	\$23,131
Int. Stor. Cost (millions)	-	20	103	193	265	329	293	119	-	1,322
Total Cost	\$10,332	\$2,446	\$2,593	\$2,815	\$3,006	\$2,849	\$ 293	\$ 119	-	\$24,453
D. 240 MMB to 750 MMB										
Annual Fill (MMB)	358.2	87.6	87.6	87.6	87.6	41.4	-	-	-	750
Oil Cost (millions)	\$10,332	\$2,646	\$2,716	\$2,860	\$2,991	\$1,478	-	-	-	\$23,023
Int. Stor. Cost (millions)	-	32	140	257	358	383	293	119	-	\$ 1,582
Total Cost	\$10,332	\$2,678	\$2,856	\$3,117	\$3,349	\$1,861	293	119	-	\$24,605

authority through any given year to permit half of subsequent year oil deliveries to be under contract. Budget outlays typically lag cost (delivered value) by one month, reflecting normal contract payment terms. At completion, however, budget authority, cost, and outlay amounts are the same.

Table 5 illustrates the following:

- Under baseline oil price assumptions, accelerating fill under Alternatives C and D would result in higher interim storage costs more than offsetting oil price savings, even before taking Federal borrowing costs into account.
- The sustained 145 MBD fill rate (A) and the 220 MBD-to-500 MMB option (B) are approximately .5 percent different in terms of total costs. The direct oil costs for these options, exclusive of interim storage, bracket the fill-to-capacity (1990) oil costs estimated on Table 3.

Implications of Alternative Oil Price Trends

In order to assess the effects of oil price assumptions on the costs of alternative fill policies, two further oil price trends have been developed. The High Case trend reflects a cumulative 2.5 percent per year variation above the baseline and the Low Case trend represents a like decrease. Table 6 presents these two additional cases.

Table 6

Alternative SPR Oil Cost Trends (Nominal dollars per barrel)

<u>Fiscal Year</u>	<u>Low Case</u>	<u>Change</u>	<u>Baseline</u>	<u>Change</u>	<u>High Case</u>
1984	\$29.95	- 2.5%	\$30.21	+ 2.5%	\$30.97
1985	29.46	- 5.0%	31.01	+ 5.0%	32.56
1986	30.20	- 7.5%	32.65	+ 7.5%	35.10
1987	30.73	-10.0%	34.14	+10.0%	37.55
1988	31.23	-12.5%	35.69	+12.5%	40.15
1989	31.70	-15.0%	37.29	+15.0%	42.88
1990	32.25	-17.5%	39.09	+17.5%	45.93
1991	32.78	-20.0%	40.98	+20.0%	49.18

The Low Case trend results in an 9 percent growth in oil prices over the 1984-1991 period, compared to over 35 percent under Baseline assumptions and almost 59 percent under the High Case. Such growth rate assumptions become important in assessing the advantages of accelerated fill in comparison to interim storage and Federal borrowing costs.

Table 7 presents the financial implications of the Low Case and Table 8 presents the same information for the High Case.

Under the Low Case price assumptions, a 145 MBD rate becomes less expensive than all other options. Under the High Case assumptions, there is at most a 1.5 percent difference among the fill rate options because the faster growth in oil prices nearly offsets the interim storage costs associated with accelerated fill.

The proportionately small variation in total cost estimates, despite seemingly wide variations in fill rates and oil price assumptions, results from the fact that the 750 MMB system is planned to be nearly 50 percent complete by the start of FY 1984, when the different price and fill rate cases take effect. As the SPR program matures, variations in the total costs from policy and baseline alternatives can be expected to narrow further.

Table 7

STRATEGIC PETROLEUM RESERVE
Funding Requirements for Fill Rate Options
Low Case Price Assumptions
(\$ Costs in millions)

	Through FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	Total
Oil Price (\$/BBL)		\$29.45	\$29.46	\$30.20	\$30.73	\$31.23	\$31.70	\$32.25	\$32.78	
A. Sustained 145 MMB										
Oil Cost (millions)	\$10,332	\$1,558	\$1,558	\$1,598	\$1,626	\$1,652	\$1,677	\$1,706	\$ 705	\$22,412
Int. Stor. Cost (millions)	-	-	-	-	-	-	-	-	-	-
Total	\$10,332	\$1,558	\$1,558	\$1,598	\$1,626	\$1,652	\$1,677	\$1,706	\$ 705	\$22,412
B. 220 MMB-to-500 MMB										
Oil Cost (millions)	\$10,332	\$2,365	\$1,812	\$1,148	\$1,690	\$1,874	\$ 983	\$2,129	-	\$22,333
Int. Stor. Cost (millions)	-	20	68	49	-	-	-	-	-	137
Total	\$10,332	\$2,385	\$1,880	\$1,197	\$1,690	\$1,874	\$ 983	\$2,129	-	\$22,470
C. 220 MMB to 750 MMB										
Oil Cost (millions)	\$10,332	\$2,365	\$2,366	\$2,425	\$2,468	\$2,205	-	-	-	\$22,161
Int. Stor. Cost (millions)	-	20	103	193	265	329	293	119	-	\$1,322
Total	\$10,332	\$2,385	\$2,469	\$2,618	\$2,733	\$2,534	\$ 293	\$ 119	-	\$23,483
D. 240 MMB to 750 MMB										
Oil Cost (millions)	\$10,332	\$2,580	\$2,581	\$2,646	\$2,692	\$1,293	-	-	-	\$22,124
Int. Stor. Cost (millions)	-	32	140	257	358	383	293	119	-	\$1,582
Total	\$10,332	\$2,612	\$2,721	\$2,903	\$3,050	\$1,676	\$ 293	\$ 119	-	\$23,706

Table 8

STRATEGIC PETROLEUM RESERVE
Punding Requirements for Fill Rate Options
High Case Price Assumptions
(\$ Costs in millions)

	Through FY 1983	FY 1984	FY 1985	FY 1986	FY 1987	FY 1988	FY 1989	FY 1990	FY 1991	Total
Oil Price (\$/BBL)		\$30.97	\$32.56	\$35.10	\$37.55	\$40.15	\$42.88	\$45.93	\$49.18	
A. Sustained 145 MBD										
Oil Cost (millions)	\$10,332	\$1,638	\$1,722	\$1,857	\$1,986	\$2,124	\$2,268	\$2,430	\$1,057	\$25,414
Int. Stor. Cost (millions)	-	-	-	-	-	-	-	-	-	-
Total	\$10,332	\$1,638	\$1,722	\$1,857	\$1,986	\$2,124	\$2,268	\$2,430	\$1,057	\$25,414
B. 220 MBD-to-500 MBD										
Oil Cost (millions)	\$10,332	\$2,487	\$2,002	\$1,334	\$2,065	\$2,409	\$1,329	\$3,031	-	\$24,989
Int. Stor. Cost (millions)	-	20	68	49	-	-	-	-	-	\$ 137
Total	\$10,332	\$2,507	\$2,070	\$1,383	\$2,065	\$2,409	\$1,329	\$3,031	-	\$25,126
C. 220 MBD to 750 MBD										
Oil Cost (millions)	\$10,332	\$2,487	\$2,615	\$2,819	\$3,015	\$2,835	-	-	-	\$24,103
Int. Stor. Cost (millions)	-	20	103	193	265	329	293	119	-	\$ 1,322
Total	\$10,332	\$2,507	\$2,718	\$3,012	\$3,280	\$3,164	\$ 293	\$ 119	-	\$25,425
D. 240 MBD to 750 MBD										
Oil Cost (millions)	\$10,332	\$2,713	\$2,852	\$3,075	\$3,289	\$1,662	-	-	-	\$23,923
Int. Stor. Cost (millions)	-	32	140	257	358	383	293	119	-	\$ 1,582
Total	\$10,332	\$2,745	\$2,992	\$3,332	\$3,647	\$2,045	\$ 293	\$ 119	-	\$25,505

Timing of Costs

While the four fill rate alternatives do not, as described above, result in proportionately large variances in total costs for a 750 MMB system, the timing of cost does exhibit significant variations. These cost timing variations can be expressed in Treasury borrowing costs which would be associated with changes in oil fill rates. The July 1983 Mid-Session review of the FY 1984 budget incorporates projections of long-term Federal borrowing rates involving a steady decline from 10.6 percent in FY 1983 to 6.9 percent in FY 1988. By comparison, the Administration has projected the annual rate of price increases for U.S. oil imports to be less than 5 percent. Therefore, the accelerated purchase of a barrel of oil during this period would increase rather than decrease total Federal costs under these assumptions.

Table 9 illustrates this phenomenon by comparing, under the Baseline oil price assumptions and the Mid-Session review borrowing rate projections, the direct and total costs for Alternatives A and B after FY 1983. Overall, Alternative B would increase cumulative Federal investment requirements by \$495 million. The further accelerations under Alternatives C and D would increase this cost differential.

Table 9

Post-FY 1983 SPR Oil Acquisition Costs
(\$ millions)

<u>Alternative</u>	<u>Direct Oil and Interim Storage Costs</u>	<u>Treasury Interest ^{1/} Through FY 1991</u>	<u>Total</u>
A. (145 MBD)	\$13,581	\$4,783	\$18,364
B. (220 MBD to 500 MMB)	\$13,466	\$5,393	\$18,859
Difference	-\$ 115	+\$ 610	+\$ 495

^{1/} Assumes continued long-term borrowing rate of 6.9 percent after FY 1988.

Table 10 compares the four fill rate alternatives in terms of near-term (FY 1984 and FY 1985) annual cost requirements using baseline price assumptions (from Table 5) and near-term cumulative fill targets.

Table 10

Cost Timing Considerations
(dollars and barrels in millions)

<u>Alternative</u>	<u>FY 1984</u>	<u>FY 1985</u>
A. Sustained 145 MBD		
Cost	\$1,598	\$1,640
Cumulative Fill	411	464
<u>Changes from A</u>		
B. 220 MBD to 500		
Cost	+\$ 848	+\$ 335
% Change	+ 53%	+ 20%
Cumulative Fill	+ 28	+ 36
% Change	+ 7%	+ 8%
C. 220 MBD to 750		
Cost	+\$ 848	+\$ 953
% Change	+ 53%	+ 58%
Cumulative Fill	+ 28	+ 55
% Change	+ 7%	+ 12%
D. 240 MBD to 750		
Cost	+\$1,080	+\$1,216
% Change	+ 68%	+ 74%
Cumulative Fill	+ 35	+ 69
% Change	+ 9%	+ 15%

For FY 1984, the alternatives to a 145 MBD rate require annual cost increases of 53 percent to 68 percent but yield inventory increases of 7 percent to 9 percent. For FY 1985, the alternatives require cost increases of 20 percent to 74 percent but yield inventory increases of 8 percent to 15 percent. Proportionately large near-term cost increases result in proportionately small inventory increases.

Other Dimensions of SPR Fill Rate Decisions

This analysis does not address such other dimensions of SPR development decisions as the strategic and economic value of the Reserve or the total Federal investment costs, including interest charges, in relation to inventory resale value. Analysis of these other dimensions requires still further assumptions about future conditions in both oil and capital markets. Other analysis performed by the Department suggests that the economic value of the Reserve is dependent on assessments regarding the price response of the oil market to a supply reduction and the likelihood of such supply reductions during the remainder of this century. The net financial position of the Federal Government as an investor in the SPR is dependent on the relative movement of oil prices and interest rates over this same period.

SUMMARY

A common theme in the foregoing analysis is that the SPR program has reached a maturity level such that variations in future fill rates and oil price assumptions yield proportionately small changes in ultimate costs. Increasing near-term fill rates above the 145 MBD rate requires disproportionately high near-term cost increases in relation to near-term inventory protection values. This maturation of the program also suggests, as indicated by Secretary Hodel, the desirability of refocussing policy attention to SPR deployment and use issues.

INVESTIGATIONS INTO OIL DIVERGENCE

Senator McCLURE. Thank you. In early November 1981, the U.S. Customs Office of Investigation notified the Department of Energy of allegations that during the period November 1977 through December 1978, large quantities of crude oil off loaded at a terminal and storage facility in Sunshine, LA, and destined for transshipment via barge to the Bayou Choctaw storage site, were diverted and some material such as waste oil or other hydrocarbon-based chemical waste was substituted in its place. These allegations were subsequently investigated by DOE, by U.S. Customs, and the U.S. attorney for the middle district of Louisiana. Can you briefly describe the result of that investigation?

Mr. VAUGHAN. Most happily, Mr. Chairman. Finally, after many months, we are able to say that all those investigative efforts, including support from the Federal Bureau of Investigation, and an extensive amount of sampling and then actual testing of the oil samples, a quite extensive set of tests, and some very exotic testing through the Bartlesville laboratory, reveals that there simply is no credible evidence that there was substitution. And I believe it is fair to say, with our IG report issued March 30 of this year, a clean bill of health on that subject area—that is, the substitution of the junk oil question, I hope, is forever laid to rest.

Senator McCLURE. Are you confident that the evidence that you have now as a result of those several investigations is sufficient to lay the matter to rest?

Mr. VAUGHAN. Mr. Chairman, yes.

Senator McCLURE. Are there further investigations going on on that matter, or have they all been concluded?

Mr. VAUGHAN. To my knowledge, Mr. Chairman, on the subject of junk oil there are no further investigations and none contemplated.

IN SITU OIL MEASUREMENTS

Senator McCLURE. In a letter to me from Secretary Hodel dated March 22, 1984, he stated in part that "a suitable method is yet to be found to perform in situ measurements of oil currently in the caverns." He went on to say, however, that, and again I quote, "measurement of oil receipts throughout the program has been consistent with industry accepted standards," and that, "the Department will continue to search for an adequate method of in situ measurement."

While I understand this problem of measurement may be an industrywide problem, it nevertheless implies, and lends some credibility to the charge, that we may not really know how much oil we actually have in our storage caverns. Can you put that problem or that question into a proper perspective for us?

Mr. VAUGHAN. That question has arisen several times, Mr. Chairman. We can calculate rather precisely the size of caverns and we know what oil went in, that sort of thing, through standard practices. What the Secretary is referring to is an effort we have had ongoing with the Sandia Labs to develop a method that would allow us to actually measure and

verify, at our will, the quantity of oil in any given cavern at any given time. So far we simply have not been able to develop that technique with sufficient accuracy. We are using and have employed the standards of practice in the industry and, as a matter of fact, we do more metering and more checking on quantities than anybody handling large quantities of oil. But with this particular technique that we have been trying to develop, it has not yet been successfully effected.

Mr. FURIGA. Mr. Chairman, if I may add to that.

Senator McCLURE. Please.

Mr. FURIGA. There are many benefits to storing oil in underground salt caverns: Security, safety, environment, and cost, but one of the disadvantages is you can't see it and people have problems believing what they can't see.

Senator McCLURE. I have some problems believing what I do see around here. [Laughter.]

Mr. FURIGA. We, too, have a high degree of confidence in knowing the quantity that went into these caverns. The caverns are maintained under pressure which is monitored continually, so if there is any escape of oil—which there hasn't been—it's dependent on the pressure plus the fact we use state-of-the-art measurement techniques in lowering devices into the cavern, detecting the interface between the brine and the oil, so you can measure the oil.

What we are seeking is something that hasn't been made yet. We are working with the German SPR. In fact there are people, as I speak, in Germany from Sandia Labs witnessing a demonstration of a new technique to measure oil in caverns because the Germans have salt cavern storage, too. That's what we are seeking.

Senator Bradley asked that very question on April 6, when he was down with me visiting Bayou Choctaw. Our site manager gave an explanation and Senator Bradley said, "you know, I feel a lot better now," because the site manager explained the pressure monitoring. He explained the interface measurement and how that monitoring is reviewed by top management at that site.

Senator McCLURE. Are we spending enough money in this area to increase our state of the art and enhance our knowledge?

Mr. FURIGA. I believe we are, sir.

Mr. VAUGHAN. Senator, I believe my colleague Dr. Merklein would like to comment on this subject.

Mr. MERKLEIN. Senator, if I may, this is really Bill Vaughan's area, but I have visited SPRO. I have been a petroleum engineer, as you know, and a reservoir engineer for some time.

If you have a leak, it would go out of the salt dome and you would immediately have suction on your wellhead—negative pressure on the wellhead, and we would know it right away. There is volumetric measuring, there is observation of pressure. If the oil went away, the pressure would drop. The pressure is still there, unless somebody when I was there put a peg in the pressure recorder, which I rather doubt.

STORAGE DEVELOPMENT

Senator McCLURE. Turning now to the SPR planning and storage, you report on page 154 of the justification that leaching performance at both the Bryan Mound and West Hackberry storage sites has been somewhat better than anticipated, and as a result capacity availability projected in early budgets has been accelerated.

You further report that development of phase II capacity at Bryan Mound is projected to be complete during fiscal year 1986 and is projected to be complete at West Hackberry during fiscal year 1988. In a subsequent fill schedule developed before the committee, dated February 10, 1984, you indicate completion of phase II capacity at Bryan Mound will actually occur during the third quarter of fiscal year 1985 and similar phase II completion at West Hackberry will occur during the third quarter of fiscal year 1987.

Is this schedule of February 10, 1984 still an accurate display of your projected storage development, or have these calculations changed slightly, as they apparently did after the justification was published?

Mr. FURIGA. Mr. Chairman, the two reports that you are talking about reference two different descriptions of the same capacity schedule. The February 10, 1984, report describes a combined capacity development schedule for all phases at a particular site. For Bryan Mound and West Hackberry, phase II and phase III caverns will be leached in tandem. At Bryan Mound, for example, we will have created total storage capacity equivalent to phase II by the third quarter of fiscal year 1985, as you state. However, some of this capacity will be in phase III caverns, and some phase II caverns will not be completed until the following year as indicated in your justification.

Senator McCLURE. So the earlier date on construction is accurate?

Mr. FURIGA. As far as capacity creation, irrespective of phase, yes, sir.

Senator McCLURE. And that is also the ancillary provision for the physical utilization?

Mr. FURIGA. Right.

Senator McCLURE. And the other relates to the phase designation of the capacity, am I correct?

Mr. FURIGA. The actual caverns associated with each phase, yes, sir.

Senator McCLURE. Well, the chart of February 10 is an accurate statement of the completion of capacity?

Mr. FURIGA. Is that the chart that indicated we would complete 120 million barrels in phase II and phase III capacity, by fiscal year 1985.

Senator McCLURE. Yes.

Mr. FURIGA. That is aggregate phase II and phase III capacity for Bryan Mound.

Senator McCLURE. Yes; Bryan Mound will complete all but 40 million barrels in capacity by the third quarter of 1985 and West Hackberry will complete all but 10 million barrels by third quarter of 1987?

Mr. FURIGA. That is the combined phase II and phase III capacity.

Mr. Chairman. Some phase II caverns may be completed after these dates.

Senator McCLURE. That is capacity.

Mr. FURIGA. Yes, Mr. Chairman; it is accurate.

Senator McCLURE. How much money was saved at both sites as a result of this improved leaching performance?

Mr. FURIGA. Mr. Chairman, we will provide that for the record.

[The information follows:]

IMPROVED LEACHING PERFORMANCE

There are no real cost savings related to the earlier development of storage capacity as shown in our fiscal year 1985 budget request over what was indicated in your fiscal year 1984 budget. This earlier capacity development is not a result of improved leaching efficiency, but rather a result of achieving higher than planned leaching rates at these sites. Since the greater part of the leaching costs is related to the electric power consumption, the higher leaching performance results in an earlier incurrence of electric power costs. Although the total development will be completed slightly earlier than originally planned, the total projected cost of leaching each and all caverns remains essentially unchanged.

LESSONS LEARNED FROM EARLIER LEACHING EXPERIENCE

Senator McCLURE. Do you expect better leaching performance at other sites in the coming months?

Mr. FURIGA. Mr. Chairman, those are the only two sites we are leaching. We are leaching one small cavern at Bayou Choctaw. Big Hill, of course, will be the new site which will be leached, but Bryan Mound and West Hackberry are the two sites which are currently being leached.

Senator McCLURE. Is that just an aberration, or have you learned something about leaching these caverns that translates into predictable performance?

Mr. VAUGHAN. Mr. Chairman, what has been happening with the leaching performance over the past several years is that we have been exceeding design expectations. What I think that means is that this program, when it was designed some 5 or 6 years ago, was at the leading edge of technology, and what we are seeing reflected are some things we didn't know, and that the cavern development rate of the solution mining is quite a bit more than the engineers had expected 5 or 6 years ago.

Senator McCLURE. I am not at all unhappy that you are doing better than projected. I just wanted to know whether that is really predictable.

Have you learned from that something you could predict with respect to Big Hill, as an example?

Mr. VAUGHAN. Yes; in Big Hill we do expect a higher rate of cavern development based on what we learned.

Senator McCLURE. Do these tables that you have given me indicate that experience? Is this performance schedule of February to completion of capacity—does that reflect that improved performance?

Mr. VAUGHAN. Yes, sir.

Senator McCLURE. Can that improvement in leaching significantly alter the second quarter of the fiscal year 1990 timeframe projected for final completion of the 750 million barrel facility?

Mr. VAUGHAN. We don't think so, Mr. Chairman, because we think we have taken this increased development rate into account in the figures the committee has.

Senator McCLURE. I will ask some other questions for the record with respect to the SPR Program. But let me switch to a different subject for a moment. That is on the drawdown.

SPR DRAWDOWN EXERCISE

During the summer of 1983, the Department conducted an SPR drawdown exercise called DIREX-B.

Please briefly describe the general nature of this exercise, the results of the exercise and any actions you have taken in response to these results.

Mr. VAUGHAN. Mr. Chairman, DIREX-B was an exercise that we designed to test the internal paperwork flow essentially in the Department to run a drawdown. It was not a physical pumping or delivery test. It was a test of standard sales provisions, how they would be handled, how contracting efforts, et cetera, would be handled in a drawdown.

One of the lessons learned in DIREX-B, in fact learned before we wrote the final report—and we thought important enough to go ahead and start making changes—was that the standard sales provisions needed modification. Not only did the DIREX-B indicate that, but we had standard sales provisions out for public comment, and I think it is fair to say much of the public comment underscored that point. They have since been revised and issued in new form, and quite frankly, Mr. Chairman, I would expect—and again available for public comment—them to be revised again and provide yet another iteration.

That is perhaps the most important lesson we learned in DIREX-B. There were other lessons in sizes of lots we should make available for bid and that sort of thing that we learned, and we have or are changing procedures to reflect the lessons learned.

At this moment there is an active program within the Department to take all the recommendations from the outside committees that we had—evaluators in DIREX-B—and to make appropriate improvements.

DRAWDOWN AND DISTRIBUTION PROBLEMS

Senator McCLURE. Included in your statement submitted for the record, Mr. Secretary, was supplementary testimony submitted earlier this month before the House of Representatives dealing with certain recently identified SPR drawdown and distribution problems.

Could you briefly highlight the nature and the extent of those problems?

Mr. VAUGHAN. In brief, Mr. Chairman, what we found and is identified in that testimony is the fact that should surprise no one. We are dealing with a dynamic petroleum industry, and that industry has changed since the program was designed. It has changed reflecting changing market supply and demand conditions, and it has changed in that two of the pipelines that formerly were distributors of oil have been sold and are to be converted from oil pipelines to gas pipelines.

That caused us to take a very serious look at our ability to distribute oil as widely and broadly as we had planned to the petroleum industry, and we have come up with a series of what we term enhancements to distribution mainly in the nature of, perhaps, a Government pipeline to the Houston area from a major portion of our capacity and a shorter pipeline to the Lake Charles, LA, area, some interconnections to refineries that are closer to those storage sites, and some additional docks—so that distribution can be enhanced.

One of the central features of that testimony is very important for the committee to understand, which is that while we have identified these problems, they are potential problems to drawdown. They do not this minute affect the ability to achieve the designed drawdown rate of 1.7 million barrels per day. In fact, we are capable of 2.1 million barrels per day for 3 months at this very moment.

Senator McCLURE. You can get it out of the ground, but you don't know what you are doing with it after you get it out?

Mr. VAUGHAN. No; we can get it distributed. What we are concerned with, Mr. Chairman, is that if we did nothing about these changes we would not be able to move to our next step, stepped-up delivery capability, which is planned in 1986 to be 3.5 million barrels a day, and we would not be able successfully to move on to the phase III distribution capacity in 1990, or thereabouts, of approximately 4 million barrels a day.

Thus, our planning for the enhancement so that we do meet those schedules as planned with modifications.

I would also tell you that while we made that testimony and are taking some preliminary steps to be prepared to make these enhancements, the Secretary asked the National Petroleum Council to give him its advice on this subject on an expedited basis, and we would expect to have our views of the enhancements necessary either confirmed, or we would perhaps modify our enhancements in light of that report. That report is expected this fall.

Senator McCLURE. I am concerned that we may miss an opportunity to minimize the cost in replacement of that capacity. I hope you can furnish to the committee your estimate or statement, and we will seek it in other places as well, as to the reasons why these pipelines are being abandoned or converted and whether or not the petroleum distribution industry itself—the private sector industry—will move to replace the capacity.

It is not clear to me exactly the reason why the pipelines are being converted and whether or not the industry will make other accommodations.

Mr. VAUGHAN. Essentially, Mr. Chairman—and I will be more than happy to furnish you the details—what has happened in both cases is that in one case a number of refineries served have been shut down, reflecting market conditions, and we would not anticipate—certainly not in the near future—their replacement. It simply means capacity for refining has shifted to more modern facilities in that case.

In the other case the demand for oil served by the pipeline for crude to be refined has drastically shifted, enough so that the two pipelines have more value transporting natural gas than they do oil.

We do not see that, on balance, the Nation's supply of petroleum and petroleum products is adversely affected by these pipeline changes, and I think we have experienced them in the past, and we should expect to experience them in the future as refineries age, shift, are taken out of service.

What we are really seeing, I think, is a concentration by the oil industry—a greater concentration of refining capacity in the Gulf Coast area, where SPR is essentially located, so in a sense you might say that the industry is confirming the planning—the long-range planning of the reserve.

Senator McCLURE. Well, I am concerned with whether or not we do it well, and certainly I don't expect that the industry is going to stand still just because the Government made a set of plans at one point. On the other side of that, every change affects a myriad of other operations, one of which happens to be SPR.

Mr. VAUGHAN. Absolutely, Mr. Chairman. You ought to know, too, sir, that we did have the option and did actively consider the Government acquiring those pipelines, but because they really had lost their demand for crude they really had insufficient value to the reserve as distribution vehicles, so we had to devise others.

Senator McCLURE. Do you have any idea of the timeframe associated with developing alternatives and what the likely cost for corrective action may be?

Mr. VAUGHAN. We are looking at that in the 1985 budget itself, Mr. Chairman, and whether we need to shift certain funds, and if so, we will furnish that justification—the change in justification forthwith.

The bulk of funding we think would be necessary would be in the 1986 budget, which is currently in the planning phase. We have investigated this matter far enough to be certain that any shifts with respect to the budget we are currently discussing in 1985 would not be a shift in total amount. It will be within the total amount, and we feel we can guarantee the committee that we can accomplish that without affecting Big Hill scheduling or planning.

Senator McCLURE. It is my understanding that those, as you just indicated, would come from other purposes expressed in the 1985 budget. Are we going to get your recommendation in time to reflect that in the appropriations action, or will it be a change later?

Mr. VAUGHAN. It may have to be a reprogramming to get sufficient specificity, Mr. Chairman. We are trying to do the former, but we believe some degree of accuracy is required here.

Senator McCLURE. If you get it in time, will you forward to us a requested amendment to the budget, together with the necessary programmatic changes?

Mr. VAUGHAN. Yes, sir; we have people in New Orleans working on this today, and if at all possible, we would much prefer to go the amendment route, and we would certainly forward those.

Senator McCLURE. And if we can't accomplish that, I would assume you would request a reprogramming and submit that to the committee.

Mr. VAUGHAN. That's correct, sir.

SPR TEST SALE

Senator McCLURE. Turning now to specific budgetary questions concerning emergency preparedness, you report on page 169 of your justification that during fiscal year 1984, you will be giving consideration for an actual SPR drawdown test plan for fiscal year 1985. Are you now planning such a test?

Mr. MERKLEIN. AST-5 is planned for next year; yes, sir.

Senator McCLURE. What do you expect to accomplish during the test and do you have any idea when it will occur?

Mr. MERKLEIN. We are now in the planning process, and we have not come to a conclusion precisely how we should conduct it. There are all kinds of problems. To give you one, for example—sorry. I'm incorrect. I'm in deep trouble already. [Laughter.]

I got turned to AST-5. I am sure you will remind me of AST-5 when my time comes. But this is a drawdown test and that is more properly Bill Vaughn's area, so I will let Bill handle it.

Senator McCLURE. All right.

Mr. VAUGHAN. We are planning, Mr. Chairman, the possibility of an actual drawdown and test sale, if appropriate legislative authority and direction is received from Congress to do such an actual sale, and we would expect that what one would learn from such a test or activity is primarily the advantage of demonstrating the entire system working, in the sense of actually drawing oil out and selling it.

As we have discussed before, Mr. Chairman, there are some drawbacks with such a testing sale, uncertainty about what pricing might be involved, what cost might be involved, because such a test would be run in the time of plenty and thus there is some gap of reality and some limit on what lessons can be learned and what we can conclude.

I think it is for that reason that the primary thing that can be achieved out of such a test is some confidence for the public and perhaps the Congress that the system does, in fact, work in its entirety.

Senator McCLURE. Have the problems you identified with drawdown facilities affected the test plans you may have been making?

Mr. VAUGHAN. No, sir; there are no physical problems that have affected this test planning at all.

Senator McCLURE. The drawdown test would involve also the testing of the distribution facility, and your capacity to distribute. If these pipelines are out of business now, doesn't that affect your ability to distribute and wouldn't that affect your test?

Mr. VAUGHAN. Not at this stage, Mr. Chairman, because at this stage—in fact, up until 1986—the reserve is able to drawdown and distribute at its planned or higher capacity, notwithstanding the sale of these two pipelines.

Senator McCLURE. Were you not planning to use those two pipelines in the test?

Mr. VAUGHAN. Only one of the pipelines.

Senator McCLURE. Then you do have to substitute some other kind of distribution facility?

Mr. VAUGHAN. Oil would go across the docks rather than up the pipeline.

Senator McCLURE. That has affected your test to some degree, has it not?

Mr. VAUGHAN. In that sense; yes, sir.

Senator McCLURE. The point I'm getting is, some people want to know what the test is going to be and whether or not it really improves your ability to distribute product. That's the reason I ask these questions.

Mr. VAUGHAN. I get your point, and when I answered the question, I really didn't get the thrust of your question. I see it now.

From a national perspective, the prime consideration, we believe, is, "Can you get the planned volume of oil into the hands of the oil industry?" Because once oil transfers out of Government hands to the oil industry's hands—those who handle oil—it is swapped anyway—and the amount that is physically moved from point A to B is always kept at a minimum, and it is a swapping process.

EMERGENCY PREPAREDNESS EXERCISES

Senator McCLURE. For fiscal year 1985, you plan to conduct a number of exercises, including AST-5, REX 85 Bravo, DIREX-C, and WINTEX/CIMEX, designed to test and improve your internal and external energy emergency operations capabilities.

Could you briefly describe the nature of each exercise, what you expect to accomplish from each and the timeframe in which you plan to conduct these tests?

Mr. MERKLEIN. The AST-5 is the fifth in a series of IEA—International Energy Agency—tests. It will be conducted in the fall of next year—October, November.

Senator McCLURE. October 1985 or October 1984?

Mr. MERKLEIN. 1985.

Senator McCLURE. All right.

Mr. MERKLEIN. We're in the planning stage today. We would very much like to make the test more realistic than it was last time around. A primary problem last time was that the data base was 2 years old. We essentially did not have in that data base a significant strategic petroleum reserve to draw from, and we, therefore, got into considerable problems for the apparent failure to inform others of the status of our stored reserves.

We have talked, and I talked with the Justice Department and other Government agencies concerning the use of more up-to-date data. We anticipate that the antitrust problems will be overwhelming and that we will again be stuck with an old data base.

Nevertheless, by the time AST-5 comes rolling around, the SPR, looking back, will be about 400 million barrels, enough to draw on.

Senator McCLURE. You're going to add the 400 millionth barrel this week?

Mr. MERKLEIN. That's right.

Senator McCLURE. By October 1985, we will have considerably more.

Mr. MERKLEIN. Yes; but the data base will likely be 1 year old, and so the data base will be more or less today's actual volume of SPR.

Senator McCLURE. I guess that is all I could expect from the Government. A year behind time isn't bad.

Mr. MERKLEIN. Yes, sir; we can't help it. Our colleagues with the Department of Justice are a bit hesitant to let us have it our way.

Senator McCLURE. And REX-85 Bravo?

[Pause.]

Senator McCLURE. Deep trouble again?

Mr. MERKLEIN. May I skip that one, and I will turn it over to the lady who is advising me.

The DIREX-C is a continuation of our ongoing testing of the SPR. It is the name given to the possible test sale of some SPR oil. Bill Vaughan has already commented on this exercise.

Senator McCLURE. It's an ongoing one, not time-specific. All right.

Mr. MERKLEIN. WINTEX/CIMEX is concerned with NATO. It has something to do with the need for products rather than crude oil that are needed for the Armed Forces stationed under the various flags in Europe.

Senator McCLURE. What is the timing on that? Is that an ongoing exercise, or does it have a specific timeframe?

Mr. MERKLEIN. I think it's every 2 years. It's every 2 years. The details of the test, of course, are classified.

Senator McCLURE. Yes, sir; but the timing is not; is it? Is the timing classified, also?

Mr. MERKLEIN. Yes.

Senator McCLURE. All right. Thank you.

Mr. MERKLEIN. Now for REX-85 Bravo, I will defer to Margaret Sibley. She's the Acting Director of Policy and Evaluation. If you will join me, please.

Senator McCLURE. And it's not nice to say every time she shows her face, you're in deep trouble. We'll abandon that at this point, to call in the expert.

Ms. SIBLEY. The two exercises are the REX-84 Alpha and REX-85 Bravo. The Alpha, of course, is in 1984. The dates aren't classified. The REX Bravo exercise is 1985, and the dates are classified for that. We expect the Alpha to be probably in the spring 1984.

Senator McCLURE. Spring when?

Ms. SIBLEY. 1984. REX Alpha is 1984.

Senator McCLURE. Thank you. And 85 will be a year later?

Ms. SIBLEY. Rex Bravo will be 1985.

Senator McCLURE. Thank you.

Ms. SIBLEY. Maybe I didn't make myself clear. REX-84 Alpha has taken place already.

Mr. MERKLEIN. I will be glad to provide additional details for the record.

[The information follows:]

EMERGENCY PREPAREDNESS EXERCISES

DOE expects to participate in four major exercises in fiscal year 1985: WINTEX/CIMEX-85, SPR test sale (DIREX-C), AST-5, and REX-85 BRAVO. They are as follows:

Name of exercise	Date	Nature	Objective
WINTEX/CIMEX-85.....	Classified.....	International command post exercise sponsored by NATO; external civil agency involvement.	Exercise NATO crisis management procedures.
SPR test sale (DIREX-C)..	60 days after authorizing legislation.	DOE sponsored command post and field office exercise.	Test actual physical drawdown and distribution of the SPR.
AST-5.....	Fall 1985 ¹	International command post exercise sponsored by IEA.	Train Government, industry, and IEA secretariat personnel in the operation of the IEA emergency sharing systems.
REX-85 BRAVO.....	Classified.....	Command post exercise sponsored by FEMA.	Exercise civil agency mobilization procedures.

¹Test will actually occur in first quarter of fiscal year 1986 although bulk of test preparations will occur in fiscal year 1985.

NAVAL PETROLEUM AND OIL SHALE RESERVES

Senator McCLURE. Thank you.

Let me shift for just a couple of questions on the petroleum naval and oil shale reserves.

Earlier this year, you forwarded a reprogramming request, which would have provided for the drilling of up to six wells as the first phase of the Naval Oil Shale Reserve No. 3 gas protection plan.

You anticipated drilling up to six additional wells, using fiscal year 1985 funds, and this is reflected, accordingly, in your budget request. In our review of your reprogramming request, however, this committee and the corresponding House committee approved drilling of just two such wells, which I understand will not be completed and collecting data until at least April 1985.

Is that schedule still correct?

Mr. VAUGHAN. Yes, sir.

Senator McCLURE. As a result of congressional action on the reprogramming request, have you made other fiscal year 1985 plans regarding the proposed NOSR-3 protection plan?

Mr. VAUGHAN. We have not made other modifications, Mr. Chairman. We still believe the original six wells described in our reprogramming letter should be the ones drilled.

Senator McCLURE. And on the schedule that was then modified by the Congress, is that correct?

Mr. VAUGHAN. That's correct.

Senator McCLURE. You do plan to continue on that plan, and you do plan to spend all of the money that was requested and appropriated?

Mr. VAUGHAN. Yes, sir; in our opinion, the need for that activity, Mr. Chairman, is even more acute today than it was at the time we prepared the justification. It looks like those neighboring gas reserves are changing hands, and we will need to explore more actively.

Senator McCLURE. If I recall correctly, you asked for reprogramming for the six test wells, and we directed you to limit that to two. That would then indicate to me the money which was proposed for reprogramming is still available. Therefore, you don't need the money in the 1985 budget request.

Captain SMITH. I have the difference between what you authorized and what was reprogrammed. We could, therefore, reduce the 1985 budget request by the equivalent amount.

Senator McCLURE. Could you provide the information for us, so that we can look at that?

Captain SMITH. I can submit it for the record.

[The information follows:]

NOSR-3 GAS PROTECTION PLAN

The July 1983 "Plan for Protecting the Natural Gas Resources, Naval Oil Shale Resources No. 3, Garfield County, CO," envisioned programming and drilling a total of 14 wells. As illustrated in the table below the projected costs and well priority have not changed; however, the 3 fiscal year program was changed from a 6-6-2 to a 2-6-6 drilling schedule. All wells listed are contained within Township 6 South, range 94 West 6th P.M. and are considered part of the Rulison field.

Well	Section	Original programmed fiscal year	Revised fiscal year	Projected costs ¹	Govern- ment share
				(Thousands of dollars)	Percent
Mesaverde.....	9(W)	1984	1984	1,400	100
Do.....	17	1984	1984	1,050	75
Do.....	19	1984	1985	1,050	75
Wasatch.....	19	1984	1985	250	50
Do.....	17	1984	1985	250	50
Do.....	9	1984	1985	500	100
Mesaverde.....	9(E)	1985	1985	1,225	87.5
Do.....	10	1985	1985	700	50
Do.....	18	1985	1986	875	62.5
Wasatch.....	8	1985	1986	500	100
Do.....	10	1985	1986	500	100
Do.....	9	1985	1986	375	75
Mesaverde.....	8	1986	1986	1,400	100
Do.....	3	1986	1986	1,050	75

¹Government drilling related costs based on communitization agreements and cost sharing with land-owners and/or lessees.

SUMMARY BY FISCAL YEAR

Fiscal year:	Drilling costs	O&M	Total
1984 reprogrammed	\$2,450,000	\$144,000	\$2,594,000
1985.....	3,975,000	611,000	4,586,000
1986.....	4,700,000	554,000	5,254,000
Total.....	11,125,000	1,309,000	12,434,000

¹To be partially funded by \$2,397 remaining from amount originally planned for reprogramming in fiscal year 1984.

DEVELOPMENT ADJACENT TO NOSR-3

Senator McCLURE. Thank you very much.

Captain SMITH. If I may, Mr Chairman, I would like to add to what Mr. Vaughan said about the increased activity on the neighboring gas reserves. Northwest Exploration Co., which owns the oil-mineral rights in the Rulison field, was bought out by Williams Co. It's now Northwest Williams and has sold its undeveloped oil and mineral rights west of the Rulison field to a Barrett Energy Co.

Barrett Energy Co. has filed now with the State of Colorado for exploration rights adjacent to the Rulison field and adjacent to the reserve. So there is again an increased emphasis on developing the area immediately adjacent to NOSR-3.

Senator McCLURE. But I understand from your comments, that at least up to now, you don't intend to drill in advance of the schedule that was established by the congressional action last year.

Captain SMITH. That is correct.

Senator McCLURE. Thank you. If you find some reason to revise that schedule, I assume you will be asking for further direction from the Congress.

Captain SMITH. Yes, sir.

Mr. VAUGHAN. Yes, sir.

Senator McCLURE. Thank you.

EMERGENCY PLANNING

I now turn to the distinguished Senator from West Virginia, the Democrat leader in the Senate, Senator Byrd.

Senator BYRD. Thank you, Mr. Chairman. We have a roll call, I believe. I will have some questions that I will just supply for the record.

Does the administration have an adequate plan, Mr. Vaughan, to meet the needs of the American people and our allies, if there were an emergency to occur tomorrow or even next year? And the kind of emergency I would refer to at this point is an oil cutoff from the Middle East, which, of course, would not affect this country directly, as it would affect Japan and our West European allies.

Mr. VAUGHAN. I believe we do have such adequate planning, Senator, but I'm going to turn to my colleague, Dr. Merklein, who has the specific planning responsibility for emergency planning, and let him address your question.

Senator Byrd. All right.

Mr. MERKLEIN. Senator, there are rumors about town—allegations that we are totally unprepared for a major shortfall in petroleum. I might begin by mentioning to you that the last shortage we had in this country was the one we all didn't notice in 1981, at the beginning of the hostilities between Iran and Iraq. The disappearance of approximately 3 million barrels of oil a day on that occasion was largely unnoticed because there was considerable excess productive capacity available to make up for the shortfall.

We have outside of the Persian Gulf something on the order of 3 million barrels per day excess capacity. If, for example, Kharg Island were to cease to be operational tomorrow morning at 8, the world oil market, after a short, nervous indication of apprehension, would settle down to business as usual.

I want in this regard, also, again to point to the strategic petroleum reserve. We talk about the fill rate, and I want to comment on this, coming as I do from the withdrawal side rather than the operational and fill side that Bill Vaughan is in charge of.

The ultimate target, as you know, was a compromise settlement calculated to be 750 million barrels of oil, that at the time represented 90 days of crude oil imports at a time when imports were running 8 million barrels a day. In 1983, imports were running at half that, 4 million barrels per day, so that today we have the original target of 90 days in hand.

We are continuing to fill at a somewhat reduced rate because we anticipate the possibility that imports might rise. But if they do, we are ahead of the game. We will have our 90 days.

If the Strait of Hormuz were to be closed tomorrow morning at 8, this would mean a world shortage of something on the order of 8 million barrels per day. If the excess supply capacity that exists outside the Persian Gulf area were put on production—and I think under the market forces they will be—the 8 million barrels per day shortage would be reduced by about 3 million to 5 million barrels per day.

We are capable today of drawing from our strategic petroleum reserve something like 2 million barrels of oil per day. There are 20 other nations out there that have strategic petroleum reserves in one way or another.

If one were to assume that collectively between them they were to draw at the same rate that we draw singlehandedly in the United States; that is, another 2 million, the total SPR withdrawal rate from consuming nations' stocks would be 4 million, and you deduct this from the 5 million shortage, and we would have a total shortage among the IEA countries—21 countries—on the order of 1 million barrels or so per day. And that is about 3 percent of those countries' consumption.

I submit to you, Senator, that is not much of a problem.

Senator McCLURE. Could I ask a question?

Senator BYRD. Please.

Senator McCLURE. If I understand your answer correctly—and I was listening very carefully, and I hope I did—that implies we would use SPR?

Mr. MERKLEIN. Yes, sir; there has been testimony by Secretary Hodel on that, and I can quote him from memory that we will use SPR early in the event of a major shortage under normal circumstances.

EFFECT OF MAJOR SUPPLY DISRUPTION

Senator BYRD. How would the administration allocate petroleum products during a major supply disruption?

Mr. MERKLEIN. Well, Senator, short of a closure of the Strait of Hormuz, we would not have a net supply disruption. There would be no need for an allocation system to begin with.

We are talking, in the event of the closure of the Strait of Hormuz, 8 million barrels per day. We are talking about a net shortfall of only 1 million barrels per day among 21 of the industrialized nations in the world.

It is almost negligible. We have changed the language in the IEA emergency manual whereby the allocation will take place under market prices during the crisis, so that it is our hope that the market mechanism will take care of the allocation.

But again, in this worst of all scenarios—the closure of the Strait of Hormuz—we are only talking about 3 percent of those countries' consumption.

Senator BYRD. Well, I suppose there could be a worse scenario than a closure of the Hormuz Straits. Let's say a super serious oil disruption—oil supply disruption were to materialize.

How would the administration allocate petroleum products?

Mr. MERKLEIN. Senator, I am hard pressed to imagine something much more serious could happen. Now, you could say that the entire Middle East will have a major conflagration and the entire Middle East is shut down. You are talking about an additional loss of 2 million barrels or so per day because most of the oil exported from the Middle East comes through the Strait of Hormuz, except for two pipelines. There is the Yanbu pipeline and there is a Turkish line, and between them they contribute less than 2 million barrels per day.

So even in the worst event, you are talking about no more than 3 million barrels per day, or 10 percent roughly, of the various countries' consumption.

I might add, if that were to happen I am sure I could prevail upon Bill Vaughan to quit filling his SPR and to start diverting at the rate of—if you do it early enough—186,000 barrels per day, and once he is not in the fill mode he can also accelerate the depletion mode somewhat.

We could also put pressure on our 20 fellow IEA member nations to up their withdrawal rate by another million.

I submit to you, Senator, that if we have a supply problem the answer is a policy that is supply oriented rather than demand oriented.

We take the position that we should withdraw from our SPR to fill the vacuum created by the closing of the Strait of Hormuz or all of the Middle East and thereby escape negative consequences of the demand restraint or allocation. In particular, demand restraint would involve a sharing of shortages.

The nonexistence of crude oil would bring about a reduction in productive activities—reduction in the real GNP, increase in unemployment, reduction in tax revenues, increase in governmental deficits—all the ills and woes that to me we are already, to some extent, facing and, wouldn't particularly care to make worse.

The supply response to a supply problem I think is the proper response.

ALLOCATION OF OIL

Senator BYRD. So what you are saying is you let the price be the principal allocator?

Mr. MERKLEIN. What I am saying, Senator, is that if, indeed, we can move the volumes that in theory we can move, there will be rather moderate price repercussions.

That is, if an 8 or 10 million barrel per day shortage can be made up by 8 or 10 million barrels of oil injected from various other sources, including non-Persian Gulf oil, excess productive capacity, and the various strategic petroleum reserves for the 21 IEA member nations, it washes out.

Senator BYRD. So what you are saying is that the administration has no allocation plan?

Mr. MERKLEIN. Oh, yes; we have an allocation plan.

Senator BYRD. That is what I have been asking for.

How would the administration allocate petroleum products if the supply distribution became serious enough?

Mr. MERKLEIN. There will probably be price increases of some sort. Let me go along with a very bad scenario.

Senator BYRD. This is a very simple question. No. 1, does the administration have an allocation plan if the disruption is serious enough?

And if it has a plan, the answer is "yes." And then how would it proceed? What is the plan?

Mr. MERKLEIN. The plan, Senator, is price allocation.

Senator BYRD. So it has no plan?

Mr. MERKLEIN. It has a plan, Senator.

Senator BYRD. It has natural markets.

Mr. MERKLEIN. It does not substitute its own judgment for the judgment of 220 million Americans in the marketplace.

Senator BYRD. What you are saying is the administration really has no allocation plan? It is going to fall back on letting the market forces determine who gets the oil?

Mr. MERKLEIN. Senator, I am sorry we disagree. I think that is the best plan one could possibly have.

Senator BYRD. But the administration has nothing other than that is what you are saying?

Mr. MERKLEIN. Well, we have the strategic petroleum reserve. We have access to—

Senator BYRD. You are not filling it to the full potential, are you?

Mr. MERKLEIN. Senator, before you even begin to see prices rise significantly, you have to shut down the entire Middle East.

Senator BYRD. I am not talking about that. I am asking a simple question.

Mr. MERKLEIN. All right, and the answer—

Senator BYRD. Whatever happens or could happen or would have to happen to create a major oil supply disruption to the point we are running short of oil, what are you going to do?

How are you going to allocate the oil so the hospitals will have their share, so the coal surface mining operations will have their share, so the old people will have their share, so that the mine worker who has to travel to work 30 or 40 miles a day and then 30 or 40 miles back home—how will you go about allocating this highly diminished supply of oil so that the American people get a fair shake?

Mr. MERKLEIN. If the Arabs fail to supply the oil, Bill Vaughan will supply it for us. [Laughter.]

Senator BYRD. All right, Mr. Vaughan, the ball is in your court.

What is your plan?

Mr. VAUGHAN. I think what my colleague is saying, Senator, is that—

Senator BYRD. I understand what he is saying. He is not going to answer that question.

Mr. VAUGHAN. Oh, I think he answered your question.

Senator BYRD. You may think so, but I have been around long enough to know when a question is answered.

Mr. VAUGHAN. I think his answer was that there is a price allocation system within the country, and I think he said, though—and I think it is quite important—that the type of price rises we experienced in the past are not reasonable to expect in the future because of the ability of the free world to substitute the supply of oil from strategic petroleum reserves that are held not only by this country, but by others, and that there are sources of supply.

There is a significant difference in the production of oil today than it was the last time the world experienced significant shortages. We have North Sea, AK, and a number of other production points, and we do have our own strategic petroleum reserve, which is now quite sizable.

So I think that is what my colleague said, and I agree with him. I think he is absolutely right, and I think that prices and supply are a chicken-and-egg game. You are not really sure which begets what.

But you just simply will not have the rapid rise in prices of a commodity if you can supplement the supply, and we think we can.

Mr. MERKLEIN. Senator, if I may.

Senator BYRD. I hope you can, but thus far I haven't seen evidence on that.

During the allocation system test last year, AST-4, what was the assumed price for a barrel of oil during the simulated disruption?

Mr. MERKLEIN. Well, there were various prices, but the one that I am sure you are driving at was \$98 per barrel. I mentioned to you—and I don't know whether you were there at the time or not—that we were compelled for antitrust reasons to use a data base that was 1½ years old when we ran the test 1 year ago.

The strategic petroleum reserve contained only 100 million barrels. That is, 1½ years back, it had contained only 100 million barrels, not big enough to be really operational.

And for that reason we were not able on paper to draw on the strategic petroleum reserve, and we have tried very hard in the forthcoming AST-5 test to use a more relevant data base. I have talked to our colleagues at the Justice Department about using concurrent data. The Justice Department somehow has opinions that differ from ours. They are very much worried about antitrust implications.

We will still be using a year old data base. The next test itself will take place toward the end of October, November 1985. That is roughly about 1½ years from now, so that the 400 million barrels of strategic petroleum reserve that we now have on hand will be the base that we will use.

That in itself is a 90-day supply and so we can, even using the obsolete data base, meaningfully deal with the supply problem with the proper supply response by drawing from SPRO.

I might add, also, that the various participating IEA member nations by now, with one or possibly two minor exceptions—very small countries, also have a 90-day supply. We are currently in the process of talking to them about harmonizing a withdrawal policy so that we all withdraw strategic reserves at approximately the same time and at reasonably equitable volumes.

I think we are there.

Senator BYRD. So what you are saying is the model is defective?

Mr. MERKLEIN. Yes, sir; the test data are defective. We tried to fix it this year, but under the antitrust legislative environment it cannot be done.

STORAGE CAPACITY DEVELOPMENT

Senator BYRD. Now, what are you doing to create the maximum amount of storage space as rapidly as possible? I understand that the amount of oil at this time in the strategic petroleum reserve is something like 400 million barrels.

Mr. MERKLEIN. Senator, if I may, I would like to refer that question to Mr. Vaughan.

Mr. VAUGHAN. Senator, we are acquiring oil at the moment and filling to capacity. In other words, we are buying oil and putting it in the reserve at the rate at which we create the capacity.

Senator BYRD. Now, your answer, then, is that you are doing everything possible, are you, to create the maximum amount of storage space as rapidly as possible?

Mr. VAUGHAN. We have not changed, Senator, the timing and the creation of the storage space in this reserve. We are continuing to adhere to the schedule of completing the 750 million barrel program by 1990.

COST OF OIL UNDER AST-4

Senator BYRD. So, if I understood you correctly, the cost per barrel under the model which you indicated was defective to be something like \$98 per barrel?

Mr. MERKLEIN. That comes back to me. Yes, sir; that is based on a computer model. Personally I'm not sure that the models are always correct. Also, you will remember that we weren't able to draw on the strategic petroleum reserves, nor did any of the IEA members draw on their strategic petroleum reserves, so that indeed we did respond, on paper, to a supply problem with a demand policy, the very thing that I mentioned earlier we should be avoiding.

Today we are capable of responding. When we ran the AST-4 tests, I might add, we actually had the oil on hand. We had another year and half's worth of fill in the strategic petroleum reserve so that, if indeed a shortage had taken place, we could have drawn on SPR.

Senator BYRD. Well, if you question the effectiveness of the test model and you question the estimate of \$98 a barrel, do you have an estimate that you have confidence in as to the cost per barrel?

Mr. MERKLEIN. No, sir, I don't.

Senator BYRD. You don't have, but you are quite willing to let the market forces do the allocating in such an emergency?

Mr. MERKLEIN. Senator, if I may, I think we are back to the question we have raised earlier and we are into a semantic area. By definition you assume that using pricing allocation is no plan and we say it is a plan, and once we have said that, we are beginning to cover the same ground over and over again.

Senator BYRD. That's all right. It's not my fault you want to cover the same ground. All I want is an answer to the question. The answer is, there is no plan to allocate the petroleum other than the normal supply and demand relationships of the free market. How can you then claim to have an adequate plan to meet the needs of the American people, if the emergency were to occur tomorrow, or even next year?

Mr. MERKLEIN. Senator, I hate to take you up on this, but you said it's all right to go over the same ground over and over again and, respectfully, I say we do have a plan. It's a pricing allocation plan. The \$98 per barrel that was part of the unfortunate AST-4 test was a wholly unrealistic number.

As you know, I have joined the Department of Energy not so long ago, coming from Texas A&M University. I had my own computer model at the time. I could have given you an estimate of what the price

should be. I have, in the last 2 years, run a new regression on the various relationships that were the basis of the model. And in 1981 and 1982 things happened in the oil market as a result of price that threw all my correlations out the window and I suspect that that is the problem with models. They are always backward looking. They are never forward looking. You can never be sure. You can only focus your thoughts using models. You cannot ever really rely on the outcome.

ALLOCATION OF OIL

Senator BYRD. The point of emergency preparedness is to prepare in advance for very serious changes in our energy supply, which we hope will never occur and which we hope would never see a situation in which we were, by necessity, forced to allocate our oil supplies. Obviously, you have not prepared any other arrangements to fairly distribute oil from the strategic petroleum reserve, because there is no assurance in what you have said that hospitals and those using home heating oil, particularly in the Northeast and others, will receive a fair share of the petroleum products.

Mr. MERKLEIN. Senator, if I may—

Senator BYRD. I take it what you are saying is whoever can pay the price of the oil, will get the oil. That appears to be the plan.

Mr. MERKLEIN. Senator, as a Nation, we once had such a plan. That was in 1979. We had a very detailed allocation mechanism all over the place. I submit to you, sir, that if the public at large were asked if it wanted to repeat that experience today, the answer would be, no.

Senator BYRD. Well, I saw what happened also in 1979 a national energy plan. We had a national energy policy and we were on the way to producing a low sulphur content liquid boiler fuel, NSRC-2, and the Germans would have paid 25 percent, the Japanese would have paid 25 percent of the cost, Gulf Oil would have paid \$100 million, but your administration instructed its representatives to terminate the meetings.

So, it may be one day we will look around about us and wish that we had proceeded with those synthetic fuels programs. And the gas lines will be at the gas stations but we won't have the synthetic fuel. Does the Department of Energy see the need for the development of substitute fuels as part of a long-term strategy to insulate the United States from all supply disruptions or price shocks.

Mr. MERKLEIN. Senator, if I may. I concur with you that we do not have an allocation plan.

Senator BYRD. I finally got the answer to my question.

Mr. MERKLEIN. I'm not sure that I, therefore, draw the same conclusion. Namely, and I quote you, "that we do not have a national energy policy." I think we do have a national energy policy and I think the 1981 nonshortage—

Senator BYRD. What is our national energy policy?

Mr. MERKLEIN. The overall objective we have in our national energy policy is to supply adequate resources at reasonable costs.

Senator BYRD. At \$98 a barrel for oil? Would that be a reasonable price?

Mr. MERKLEIN. That was an unreasonable test, Senator. It was, therefore, an unreasonable price.

Senator BYRD. You said it's unreasonable but you had been unwilling or unable to provide what you would think would be a reasonable estimate.

SYNTHETIC FUELS POLICY

Let me go to the next question. What does the administration's proposal to rescind \$9.5 billion from the Synthetic Fuels Corporation mean to this long-term strategy?

Mr. MERKLEIN. Senator, would you repeat the question, please. I'm sorry.

Senator BYRD. What does the administration's proposal to rescind \$9.5 billion from the Synthetic Fuels Corporation mean to any long-term strategy, that apparently we don't have?

Mr. MERKLEIN. Well, Senator, this is out of my area of jurisdiction and I will endeavor to supply the answer to you from the Department.

Senator BYRD. Perhaps Mr. Vaughan, could you respond?

Mr. VAUGHAN. Candidly, Senator, I can't give you a definitive answer. As you know, the change of the administration's part on synthetic fuels is a very recent one and I cannot explain to you, nor I believe my colleague, the full rationale yet.

I do believe, however, that this administration has produced a national energy policy which is one that is solidly conceived and does develop alternative fuels and endeavors to develop a mixed and balanced supply of energy, and, as you know, the major portion of my responsibilities are in that area—developing coal, unconventional gas, and other types of supplies. One can always, I think, argue about the rate at which these things are done and that usually boils down to argument about the amount of funding. Certainly there has always been some rather significant discussion in those areas.

But I do believe we have a solidly conceived policy and we are moving forward on it. From time to time the Congress has chosen to move us at a faster clip than we thought we ought to move and we are doing that just now.

Senator BYRD. We haven't stopped.

Mr. VAUGHAN. I noticed that, Senator.

Senator BYRD. With reference again to the rescission, won't the Synthetic Fuels Corporation's current solicitation for products dedicated to coal projects be eliminated by that proposed rescission?

Mr. VAUGHAN. I don't know, frankly, Senator. It's just not clear enough yet for me to be able to answer you. And I'm not trying to be evasive at all. I simply don't know how to answer that question, yet.

Senator BYRD. Well, at least you are candid and I compliment you on that. I think that you are being candid in saying you don't have the answer, but that should give us greater concern. We should have great

concern that we don't know the answer, and I don't particularly fault you for that, but I have a lot of concern about where we are going and where we are not going. And I think we are going to need these synthetic fuels some day.

I have been talking about this for a long time in Democratic administrations and Republican administrations, so my question is not meant to be partisan. But I think Republicans and Democrats together are going to share this problem and the disadvantages, the dislocations, the high costs and the shortages, if we get into a very serious national emergency and we haven't planned ahead to meet it.

I have some further questions, Mr. Chairman, which I will submit for the record.

ENERGY POLICY

Senator McCCLURE. Thank you, Senator Byrd. And just so the record of this hearing will also indicate it is indeed bipartisan in our concern, the Senator from West Virginia knows that the Senator from Idaho shares the concern. And I have the same convictions that the dollars we invest in the development of all different technologies are dollars spent on an insurance policy that is very valuable for this country.

So I hope that the Congress and the administration working together can forge a program, not only that will maintain the actions that have been lately taking place within the Synthetic Fuels Corporation, but also the basic research on alternative energy forms, including fossil research and development, which certainly is in your area of responsibility and expertise, Secretary Vaughan. We must also continue to work in the areas of nuclear and alternative new technologies, and conservation and so-called soft technologies are equally important to this country. I have stated this so often I'm not sure it needs repetition.

Senator Byrd has always been helpful in this regard and I wish to recognize that. It is a bipartisan effort on our part to find a program that reduces vulnerability, and I think one thing, too, we ought to at least note for the record, as we go through the week in which we will have reached the 400 millionth barrel in the strategic petroleum reserve, while there have been differences in opinion over the size and the pacing of that reserve, there has been unanimity that we ought to have one. While there has been disagreement with respect to how we utilize it, there has been no disagreement over the fact that we ought to utilize it.

While there is disagreement as to whether or not we alone among the world's nations should bear the cost of meeting the emergency needs of the free world, there is no disagreement over the fact that we bear a very large responsibility and can make very major contributions to the world's ability in that area. While there is disagreement over whether or not we should defend the oil supplies, provide the military umbrella in the Persian Gulf area, there is no disagreement that we ought to contribute to that effort. So, I believe that while there are areas of disagreement, there are wide areas of agreement as well.

SYNTHETIC FUELS CORPORATION

I am hopeful that within the next couple of days we will have forged some kind of agreement with respect to the Synthetic Fuels Corporation that will permit us to go forward with those projects which are now underway, in some degree or another, and with enough latitude to give us the opportunity to look at one additional coal technology which has not yet been included within their panoply of programs already under right of contract or letters of intent.

I believe that is important for the security of this country, and if we calculate the costs correctly, we will silence some of the propaganda that's been put out by the people who are opposed to it. They are talking about \$67 a barrel subsidies. That is, on the face of it, ridiculous.

We can use our own calculations to indicate that over the life of all other programs that are on the books now in the Synthetic Fuels Corporation, either in contract or under letters of intent or with the commitment to make letters of intent, that the lifetime costs would be very low. A conservative estimate, just for the record, is that with flat prices for oil for the balance of this decade and 3 percent per year escalation in real terms during the 1990's, the net cost by the year 2010 of all of those programs would yield a subsidy of 11 cents a barrel.

I don't know what better investment we could make in the security of this country than a modest investment of \$216 million over the lifetime of the project to reduce the vulnerability of this country. I would note that ARAMCO at its meeting—its board meeting in New York City last week—the oil minister of Saudi Arabia attended that meeting, as indeed he should have. I want him to continue to carry home to his people, and those with whom he consults, the fact that the United States has the capacity and the will to respond to price escalations by destroying their market share, if they get too far out of line. I think he has that knowledge. I want him to be firm in that knowledge and I want to give some credibility to that statement when he makes it.

That, too, could be a great insurance policy for all of the consumers of this country and, indeed, of all the consumers of the world with respect to reasonably priced energy supplies.

Senator BYRD. Mr. Chairman, I would certainly hope that the administration would listen to you. I believe that you are very concerned, and from what I have seen and heard is evidence that you are, about the lack of planning, adequate planning, to meet a national emergency and your concern about what is happening in the Synthetic Fuels Corporation with regard to its personnel problems and also with respect to the rescission of the \$9.5 billion.

We are told if we don't agree to this 9.—I hope I am not wrongfully or mistakenly paraphrasing what I think I read in the newspaper. We were told if we don't agree to this rescision of \$9.5 billion there won't be a nominee sent up to fill the holes in the agency.

Senator McCLURE. Would the Senator yield on that point?

Senator BYRD. Yes.

Senator McCLURE. I am constrained to say you shouldn't believe what you read in the newspapers, but at the same time I have to confess that quotation was accurate.

However, I believe that it does not represent administration policy, and in spite of the fact that was accurately reported in the newspaper, there is a later chapter.

Senator BYRD. Well, I don't doubt my chairman's veracity. I wrote a letter to Secretary Hodel, and I will be interested in his reply.

Senator McCLURE. And so will I.

Senator BYRD. And I will see that my friend the chairman gets a copy of the letter.

Let me ask just a couple more questions, and then, Mr. Chairman, I will not impose on you or the witnesses further.

MARKET RESPONSE TO ENERGY EMERGENCY

Mr. Merklein, did you once testify before the Senate subcommittee that "If you were to ask me beforehand what I would propose to do or what the market would do"—I would like to emphasize that point, since you stress so much the market forces, supply, and demand, and so on—"or what the market would do in an energy crisis, the answer is that I don't know. Nobody really knows"?

Mr. MERKLEIN. Senator, I am sorry, I didn't get all of your question. I would respectfully ask that you repeat it.

Senator BYRD. All right. Did you once testify before a Senate committee that "If you were to ask me beforehand what I would propose to do or what the market would do in an energy crisis, the answer is that I don't know. Nobody really knows"?

Mr. MERKLEIN. Oh. Apparently, I did. It doesn't sound like me, but you have the quote there.

Senator BYRD. I don't desire to put words in your mouth. I am just simply asking you if that is what you said before a committee.

Mr. MERKLEIN. Could you give me the date of the testimony, sir?

Senator BYRD. Do what?

Mr. MERKLEIN. The date of the testimony.

Senator BYRD. April 12, 1981: "Statement of Helmut A. Merklein, dean, Graduate School of Management, University of Dallas." And I use this excerpt from the fourth paragraph, beginning with the second sentence.

"The full text of my prepared statement shows that an unrestricted supply response to free prices on oil and gas is capable of achieving complete U.S. energy independence by 1990."

And then I go over to page 91, the penultimate paragraph on page 91:

If you were to ask me beforehand what I would propose to do or what the market would do in an energy crisis, the answer is that I don't know. Nobody really knows. The market is a response mechanism. It is not an anticipating mechanism, with some exceptions. If I could anticipate the market, I would argue for an allocation plan because then I would say to you we can handle the situation through advanced planning. Never ask a free market man what will really happen in the case of a crisis.

Mr. MERKLEIN. Now, Senator, if I may respond to that one, I think it was from that hearing that I was very hesitant, in fact, and would not give you a precise price at the time. I remember the testimony very well. It dates back to the good old days when I was in academia. [Laughter.]

Senator BYRD. Would you like to go back to the good old days? [Laughter.]

Mr. MERKLEIN. Senator, let's not hope so, but it may happen sooner than we all think. [Laughter.]

But I do remember very distinctly the testimony, sir, and I know that I made the point following testimony by people who, right after the election, apparently had not heard there had been an election, arguing for more money so that they could—and I quote—"finetune" the allocation plans on hand.

And I said to them, departing from my prepared statement—this was from the oral testimony—I argued at the time that all allocation plans are backward looking; they will freeze into a pattern the flow of products as they are found at a given point of time.

And I argued also that at the moment the crisis breaks the first thing that changes, by definition, is supply patterns, but also when prices rise, demand patterns will change all over the place.

And I argued also that no matter how finely tuned that allocation plan would be, it was destined to be obsolete on the day it is needed.

That was the gist of my testimony.

Senator BYRD. Now, Mr. Merkley, you are the Assistant Secretary with responsibility for energy emergency preparedness.

Do you still maintain that you can't predict the market response in the event of another oil supply disruption?

Mr. MERKLEIN. Senator, the empirical evidence is on hand. Let me give you an example.

Senator BYRD. No; do you still maintain that?

Mr. MERKLEIN. Oh, yes, I do.

Senator BYRD. OK. Then you haven't traveled 180 degrees really, have you?

Mr. MERKLEIN. No, sir; I have not changed.

Senator BYRD. Well, I guess, Mr. Chairman, I have asked enough questions orally. I will submit some additional ones in writing, and I thank you for letting me impose on your time.

Senator McCLURE. Thank you very much, Senator Byrd. I have some additional questions to submit for the record for response in writing to the record.

We very much appreciate your testimony this afternoon. It has been instructive.

I think this subcommittee and, indeed, the full Appropriations Committee will continue to try to work with the administration to forge jointly, by agreement where we can and by legislation where we cannot, what we believe to be adequate and responsive measures to deal with emergencies.

PENDING EMERGENCY PREPAREDNESS LEGISLATION

And I would just note for the record that we are trying to enhance—we in the Energy and Natural Resources Committee are trying to enhance the authority to deal with emergencies to plug some of the loopholes that you have identified.

Secretary Merklein, you particularly have said that with the antitrust barriers which the Department of Justice has raised, you can't get the information to run current tests. We have pending a bill before the Energy and Natural Resources Committee, legislation which would correct that deficiency and permit the use of up-to-date data and also make certain that we can use Executive manpower reserves in the event of an emergency, not only to get information but to utilize expertise.

We were scheduled this morning, as we were last week, to act upon that legislation. We convened at the hour of 10 o'clock this morning, and when we convened I was alone. Ten minutes later there was one other there; 15 minutes later there was one other there. The attendance check indicated that during the morning we would have as many as four Members of the Energy and Natural Resources Committee who would attend to that meeting.

I mention that only because if there is a failure to respond to an emergency, not all of the fault lies downtown. Some of it lies with respect to Members of the Congress who are not concerned enough to work on legislation that could help at least correct some of those deficiencies, maybe not as far as everyone would like to go but at least as far as we can agree.

I mentioned that because I am terribly concerned, as I think we should be. We yesterday had a security briefing for Members of the Energy and Natural Resources Committee and the Defense Appropriations Subcommittee. It was a joint briefing with respect to what is happening in the Persian Gulf area today—and I don't mean to hint at great revelations, but rather to focus upon the fact that there is concern about what is happening in the Middle East.

Who knows at what point the kind of escalation of hostilities that are going on there within the last month will reach one step further and one step further, and at what point then does it become an irreversible pattern? You know, it is no accident the word "byzantine" has been worked into our language as a descriptive adjective. The byzantine intrigues of the Middle East are by nature self-descriptive in many respects, and it is hard to read and to interpret correctly what those events may mean to us.

But I do know the level of attacks upon shipping in the gulf has escalated just as the threat over the last 2½ years with respect to the land war has grown more ominous with each passing month.

The American public does not seem to understand and has not really focused upon those events and does not have the same level of concern that this Senator has about where that may lead.

I believe it is essential for us to take the minimal steps that are necessary to enhance our ability to respond because this President has merely

repeated what former Presidents have said—that a wholesale interruption of oil supplies in the Middle East is sufficiently threatening to the security of the free world as to call for military response. That military response means that young men and women of the United States would be sent halfway around the world once more to respond in a military way to the events that we did not create and cannot necessarily control. But there are actions on the energy security front that might help avoid this situation.

I just believe that we must do what we are capable of doing, and that is, I guess, Mr. Vaughan and to others from the administration, why I wonder really why we quibble over the fill rate on SPR. It is a big chunk of money. You say it is 95 percent of capacity, but it is 5 percent over which we argue, and when we look at the risks on the other side, I just wonder if it is worth that battle.

Again, how much insurance is enough? And I don't mean to lecture you. We have had our discussions, and we will continue to have our discussions.

But I feel very uncomfortable with the level of attention today, more in the Congress than in the administration—more in the Congress because I don't see us acting as we ought to be acting up here. It is not a partisan issue.

I share with my friend from West Virginia the conviction that Republicans and Democrats in this Congress and in prior Congresses have expressed their concern, without respect to which side of the aisle they occupy, with regard to the security of this country, and it is in that spirit that we will continue the dialog and hope to support affirmative, constructive actions by this Government.

Senator BYRD. Mr. Chairman, I agree with you that there is a great responsibility on both the legislative and executive branches, but the legislative, if it is to legislate with good judgment, has to have the answers for the questions that it rightly asks because unless we have the correct answers and the facts—and the full facts—we won't have that information, and we can't properly legislate.

And if I were to just make a suggestion to Mr. Merklein to hopefully look at what he has said today and try to reconcile conflicting statements he has made—the talk about leaning on the market response, depending on the market forces, and so on.

But the quotations from his earlier testimony before a subcommittee, by which he indicates that he still stands, indicated at that time he didn't know what the responses would be and that today he leans very much on those responses, on the market forces, and it seems to me that those are conflicting statements, conflicting positions. Perhaps he will be able to reconcile them, at least satisfactorily to himself.

Thank you.

Senator McCLURE. Thank you very much, Senator Byrd.

I am sure this dialog—this discussion will go on a little further.

ADDITIONAL COMMITTEE QUESTIONS

Let me at this time conclude the hearing by thanking the witnesses for their testimony this afternoon and for the questions which will be submitted in writing.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Completion of SPR Oil Fill

Question: Under the Administration's proposal of maintaining a fill rate of about 145,000 bpd until the 750 million barrel total fill is reached, and assuming all storage construction remains on schedule, exactly when do you expect the 750 million barrel level will be reached?

Answer: The SPR will be filled at an average rate of 186,000 BPD in FY 1984, raising the total fill at the end of FY 1984 to approximately 429 million barrels. At an average fill rate of 145,000 BPD in FY 1985 and subsequent years, the total fill of 750 million barrels would be reached by the end of October 1990.

Question: Would we reach completion sooner if we followed a strategy of annual fill to available capacity? What would this completion date be?

Answer: Under the present capacity development schedule, a total storage capability of 750 million barrels should be achieved in April 1990. Thus, under a fill to capacity strategy beginning in FY 1985, the 750 million barrels total fill could be reached approximately six months sooner.

Question: What can you or Congress do to accelerate this completion?

Answer: Completion of the 750 million barrel Reserve is tied to completion of the final storage site at Big Hill, Texas. We are proceeding as expeditiously as possible with the Big Hill construction activities required to commence cavern development, currently scheduled for late 1985. Assuming the FY 1985 funding request for Big Hill development is approved, we do not foresee any further action which could be taken to accelerate completion of permanent storage facilities for the 750 million barrel Reserve.

SPR Crude Oil Mix

Question: Up to now, the Administration has purchased a mix of crude for SPR fill, approximately 65 percent sour crude and 35 percent sweet crude. Is it your intention to continue purchases at about this ratio for FY 1985? Does industry continue to believe this is the proper mix or have they suggested a change in this regard?

Answer: Assuming favorable world oil market conditions, the Department of Energy intends to purchase a mix of crude oil of approximately 65 percent sour and 35 percent sweet during 1985. We have underway a review of this matter that should be complete later in the year. The National Petroleum Council (NPC) is also studying projected refinery crude oil demands for 1990 to provide us with their views.

Question: Would you expect to maintain an approximate 65 percent sour, 35 percent sweet mix for the life of the program? How often do you review this issue with industry so that you can fine-tune your purchase to meet industrial needs?

Answer: Presently, the Department of Energy is continuing to fill the SPR in a manner which will achieve an overall 750 million barrel Reserve inventory of approximately 65 percent sour and 35 percent sweet crude oil. The ratio for any given year will vary, however, because of changes in the rate of cavern development and available crude oil supplies. We now have underway a detailed review and this issue is also being studied by the NPC. The Department's analysis will take into account the results of the NPC study to ascertain if there is a need to effect a change in the overall crude mix ratio.

Question: Would a change in this mix result in a significant change in the funds necessary for oil purchases? What would your funding requirements be if, for example, a five percent shift brought the mix to a 60-40 ratio?

Answer: Changing oil market conditions, sources of supply, and related transportation costs preclude the ability to project a precise cost differential between sweet and sour crudes. However, we do not believe that a five percent shift to a 60-40 mix ratio would significantly change our oil funding requirements, though some increase would be likely. If, for example, the differential between sweet and sour crude costs were \$3 per barrel, a five percent shift in the mix would represent an increased cost of approximately \$113 million.

In Situ Oil Measurements

Question: Specifically, what steps are you taking to resolve the problem of in situ measurement of the oil in the caverns and how much funding is being devoted to this effort?

Answer: Over the past nine months an extensive review and evaluation has been conducted in an effort to identify potential methods of "highly accurate" (i.e., ± 1 percent accuracy or less) in situ cavern oil measurements for inventory verification purposes. This effort included a comprehensive literature search, a domestic and international industry survey of state-of-the-art techniques being practiced, and identification and evaluation of potential but unproven physical techniques for measuring oil in place in SPR caverns. The amount of funds expended is approximately \$60,000.

Based on the surveys of literature and industry, it was determined that it is the current practice of solution-mined cavern operators to maintain control of in-cavern inventory by use of flow meters (flow in minus flow out) and not in situ physical measurements. Industry also uses sonar mapping to check cavern dimensions, petroleum-brine interface measurements and cavern pressure to monitor integrity. These practices are consistent with those employed by the SPR.

Some of the potential measurement methods studied were oil compressibility measurements, injection of a tracer material, sonar, radar and various mechanical devices. None of these methods appear to offer the desired level of accuracy. The most promising method, the use of a tracer material, has several drawbacks and technical uncertainties including inadequate mixing, the requirement for large quantities of radioactive tracer resulting in a relatively hot source prior to dilution, and a developmental cost of 2-3 million dollars over 2 years. Volume accuracy tolerances for proposed but untried methods appears to be greater than ± 5 percent.

At the present time, we have not identified a state-of-the-art or developmental techniques for in situ measurement offering sufficient promise to warrant funding, however, we will continue to monitor closely the future development of technology in this area. The SPR's current programs to audit oil inventory records and monitor site and terminal metering capability coupled with the post-fill cavern integrity monitoring efforts provide a reasonably high degree of assurance that the quantity and quality of oil stored in the SPR is maintained.

Physical Characteristics of SPR Caverns

Question: Is it fair to say we really don't fully comprehend the physical characteristics of the caverns and therefore we cannot make precise determinations of what may be happening to the oil we are putting in those caverns? Can you put this in the proper perspective?

Answer: We believe there is a reasonably good understanding of the physical characteristics of salt dome storage caverns. The geological processes involved in the development or formation of a salt dome are

universally agreed upon and the literature is abundant with studies on our gulf coast domes. The physical characteristics and properties of salt have been well defined through laboratory analyses of core samples as well as in situ measurements in salt mines. The rock salt in which our caverns have been developed is impermeable and non-porous to oil or brine.

A very slow, long term, natural process termed "salt creep" or simply "creep" does occur at increased depths in salt. This creep or plastic flow varies between salt domes and with depth where the rate is relatively greater. The salt creep is a consequence of density differences between the overlying rock column and the lesser density salt; in fact this process is the reason that salt domes exist.* The less dense salt has risen to shallow depths from a bedded salt over millions of years. Where there is a cavity, in this case, an oil storage cavern, pressure is exerted on the cavern and its contents; this pressure tends to close or reduce the volume of a cavern. As our caverns are a closed system, pressure builds up very slowly over the long term. As we must protect the well-casing seat cemented in the salt from overpressurization and consequently failure through a fissure or crack, we monitor and maintain the pressure at the wellhead by occasionally bleeding-off brine to lower the pressure on the casing seat to preserve cavern integrity. Should a cavern leak develop around the casing seat or elsewhere, it would be detected by a pressure drop.

Underground storage caverns do present a unique technological challenge related to making precise in situ measurements because the caverns are massive in size, several thousand feet underground, only accessible through a small bore hole, and the measurements must occur through different mediums, i.e., brine and oil. It is worth noting that industry has stored hydrocarbons in salt for over 30 years and the Germans and French have similar storage caverns in salt that have been successfully operated for over ten years. During this period, industry has developed or adapted various in situ logging and survey techniques which have proven to be adequate to monitor cavern development and integrity. Undoubtedly, this is an area which provides opportunity for technological advances in the future.

Leaching Performance

Question: Do you expect better leaching performance at other sites in the coming months? Can this improved leaching significantly alter the second quarter of the FY 1990 time frame projected for final completion of the 750 million barrel facility?

Answer: Leaching at Bryan Mound and West Hackberry will create most of the new SPR capacity over the coming four years. No further improvement in leaching performance is anticipated at these sites or at the Bayou Choctaw site for the remainder of their development schedules. With the exception of Big Hill, all of the SPR sites will be completed by the end of FY 1988. The projected completion of storage capacity for the 750 MMB reserve in the second quarter of FY 1990 is tied to the scheduled completion of the Big Hill storage site.

Phase II Cavern at Bayou Choctaw

Question: Part of the Phase II development of Bayou Choctaw now calls for exchange of a smaller cavern, Cavern 102, for a privately held 10 million barrel capacity cavern, Cavern 17. Before this exchange can occur, however, DOE will have to create the smaller cavern by solution mining and then, I assume, rid the larger cavern of the ethane currently stored there. Was this exchange contemplated in the original SPR development plan? Why are you conducting this exchange rather than developing capacity in other ways?

Answer: The original Phase II technical plan, which was set forth in January 1979, did not include an expansion of Bayou Choctaw storage site. However, during 1979, the SPR identified a potential problem at

Bayou Choctaw due to the thin web of salt which exists between SPR's Cavern 15 and Union Texas Petroleum Corporation's Cavern 17 which stores industrial ethane. Depressurization of the SPR cavern during drawdown could cause coalescence of the two caverns since the ethane is stored at high pressure.

Direct acquisition or condemnation of Cavern 17 was not considered desirable due to the importance of its stored ethane as a principal feedstock for local industries. Therefore, in December 1979, the Phase II plan was amended to provide for the development of a new 4.5-million barrel cavern for ethane storage within Government property and exchanging it with Union Texas for the existing 10-million barrel cavern which will be converted to crude oil storage.

Question: Will this exchange ultimately cost more than other developments or will it in fact save money over the long-term? What are the additional costs or savings?

Answer: The total cost for the exchange is estimated to be \$48.3 million or \$4.83 per barrel, which is comparable with average Phase I and Phase III development costs on a constant dollar basis, but greater than average Phase II costs. Because of the wide range in development costs among sites and phases and because the Phase II Bayou Choctaw project is not directly comparable to either extreme of the range, a cost difference cannot be stated with precision. The "additional cost" could range from zero to as much as \$20 million, depending on the particular capacity development chosen for comparison. The determining consideration in the decision to acquire Cavern 17 at Bayou Choctaw was assuring the security of the 16 million barrels of the Government-owned crude oil in the adjacent Cavern 15.

Phase III Bryan Mound Leaching

Question: According to your justification, leaching of Bryan Mound Phase III capacity will begin in fiscal year 1984. When exactly will this work begin?

Answer: Leaching of two of the four Phase III caverns at Bryan Mound began in February 1984. The remaining two caverns are scheduled to begin leaching in June 1984. Phase III cavern leaching at Bryan Mound is currently scheduled to be completed by August 1986.

Environmental Budget

Question: Under Non-Phase Specific, you plan to devote some \$1,009,000 during FY 1985 to perform ongoing environmental requirements. This is a reduction of some \$248,000 from the comparable FY 1984 level. What has changed which makes it possible to reduce this effort? Please provide a breakdown of the tasks and associated costs you expect to accomplish during FY 1985 under the environmental program, and indicate those tasks that were performed in prior years that will not be performed during FY 1985.

Answer: The environmental program is functionally unchanged in FY 1985 from FY 1984. The budget reduction in FY 1985 by \$248,000 represents a net cost saving resulting from the replacement of the Offshore Platform Environmental Monitoring System at the West Hackberry brine diffuser with a shore-based brine pipeline integrity (leak detection) measurement system. This change was accepted by the Environmental Protection Agency on February 2, 1984. The breakdown for the environmental Budget and Reporting classification in FY 1985 is as follows:

° Local permits and usage fees	\$ 15,000
° Site and pipeline right-of-way environmental baseline characterization and monitoring	213,000
° Onshore brine leak detection system and related monitoring	<u>781,000</u>
Total	\$ 1,009,000

Planning and Management Support

Question: For Planning and Management Support, you have requested \$5,600,000, a decrease of \$650,000 from the FY 1984 level. You report that "less or no funds are requested in FY 1985 for certain support activities which in FY 1984 are being financed in large part with funds carried over from FY 1983." Please list each of these support activities which you will not perform in FY 1985, a brief explanation of why you will not perform them, and the dollar amount associated with each such activity.

Answer: Final decisions on those projects to be completed or continued at a reduced rate will not be made until late in FY 1984. Possible areas for reduced funding are Facilities Planning and Engineering, Ecological Research, Policy Studies, and EIA Systems Support.

Phase III Facilities Costs

Question: On page 149 of the justification, you report that you expect a decrease in Phase III facilities costs due primarily to economic conditions that have resulted in the award of contracts at lower prices than previously estimated. How much do you expect we will save as a result of this circumstance? Please provide a list which details the original estimated and revised cost of each current contract, and indicate what savings you might expect to achieve in future contracts.

Answer: The FY 1985 budget request projects an estimate-at-completion of \$962.6 million for Phase III. This is a decrease of \$227.9 million or 20% from a previous estimate of \$1190.5 million. The overall composition of this decrease, which reflects both savings that had been realized and projected future savings, is described in the following table.

	<u>Change</u> <u>(\$000)</u>	<u>Explanation</u>
New Orleans	\$ - 2,132	Project Administration adjustments.
Bryan Mound	- 5,922	Construction contract awarded for 50% of Title II estimate.
West Hackberry	- 47,519	Phase III planned expansion reduced from 3 caverns to 1 cavern due to increase in Phase I capacity and addition of 1 Phase III cavern at Bayou Choctaw.
Bayou Choctaw	+ 22,477	Phase III cavern added
Big Hill	-123,730	Design actual (95% compl.) - 4,827 Drilling contract awards - 101,903 Title II Constr. Reestimate - 17,600 Other (Net) + 600
Management Reserve	<u>- 71,080</u>	Project design/constr. maturity plus reduction in base costs.
Total Net Change	\$ -227,906	

From the development of the FY 1984 budget estimates to the preparation of the FY 1985 budget request, there were a number of changes to the contracting approach for Phase III in order to make the best use of available funds. Therefore, not all current contract values are directly comparable to estimates developed over a year ago. The table below presents a comparison where reasonable comparison can be made.

<u>Dollars in Thousands</u>			
	<u>FY 1984 Budget</u>	<u>Contracts</u>	
	<u>Estimate-at-Completion</u>	<u>Awarded</u>	<u>Contractor</u>
		<u>to Date</u>	
Big Hill Drilling (with site preparation and LLE/GFE)	\$ 166,148	\$ 11,442 19,697 ^{1/} 651 3,426 1,303 1,107 774 255	Big Chief Drillers, Inc. Odell Vinson Superior Casing Sunshine Iron Eltek Gulf Supply L. B. Foster
Total	\$ 166,148	\$ 38,655	
Bryan Mound Design and Construction	\$ 19,473	\$ 5,556 470 5,826	J.D.E Womak Voss Int'l
Total	\$ 19,473	\$ 11,852	
Bryan Mound Drilling (with LLE/CFE)	\$ 16,154	\$ 12,144 1,295 10 284 847	Drillers, Inc. Elteck Superior Casing L. B. Foster Equip. Renewal
Total	\$ 16,154	\$ 14,580	

^{1/} Includes priced option in the amount of \$8,886 (final eight wells) to be exercised in FY 1985.

Baseline Assessment and Allegation Report

Question: Earlier this year, your office issued a report of the results of your examination of some 700 mismanagement and misconduct allegations gathered from all sources. These allegations had previously been identified in the Baseline Assessment of the SPR Project Management Office, published October 24, 1983. The Allegation Report indicated that 79 percent of the allegations could be closed because no further action was needed, and that corrective action is already underway on many of the remaining allegations. How many of these remaining allegations--my calculations indicate there are about 147 of them--have some sort of corrective actions underway? What is the time frame scheduled for completion of these corrective actions? What is the schedule for the correction of the remaining allegations for which no corrective action has yet been undertaken?

Answer: As indicated on page 13 of the Allegation Report, 111 of the 153 open allegations would be closed through implementation of the recommendations in the baseline assessment. Implementation of these recommendations is ongoing in accordance with the "Baseline Assessment Report Implementation Plan" published on December 29, 1983. The remaining 42 open allegations are the source for 25 new recommendations contained in the Allegation Report. A plan for implementation of these recommendations is being developed and will be published in June 1984.

This plan commits to implementation of all 25 recommendations by March 1985; with the vast majority being completed in this fiscal year.

Question: Which of the allegations will remain the most difficult to correct? What steps have you taken to insure that the problems identified in the report, including those where no action was found necessary, will not recur in the future?

Answer: The longest range recommendations are those dealing with staffing and organizational functions at the Project Management Office (PMO). The PMO is currently engaged in an Office of Personnel Management (OPM) directed personnel classification review, and staffing re-alignments must await the conclusion of this process. Reoccurrence of the specific problems should be precluded by the management control and oversight provided by the Oak Ridge Operations Office, which now has management responsibility for the Strategic Petroleum Reserve project.

Distribution Improvements

Question: If funds for the new work relating to SPR distribution are taken from FY 1985 requested appropriations, which specific activities now planned for FY 1985 will be delayed? Do you expect that any such delays will in any way delay completion of storage facilities or the final 750 million barrel fill of the SPR facility?

Answer: As I suggested in my prepared statement, we are considering beginning work on distribution enhancements during FY 1985. This would, of course, affect the funding request that you are now considering, but we will plan the funding in such a way as to avoid schedule delays for capacity development. We do not anticipate having to make major resource commitments before the NPC review is completed later this year. However, we do not feel that distribution enhancements will delay final completion of the 750 million barrel system in any way. We intend to keep our commitment to complete the development of storage capacity by FY 1990 and completion of oil fill early in FY 1991.

Question: Would the movement of funds to meet these drawdown and distribution problems in any way delay or adversely affect any of the 83 capital improvement tasks identified to be undertaken in FY 1985? If so, which ones and in what manner will they be delayed?

Answer: The Department is reviewing the possibility of commencing work on distribution enhancements in the FY 1985 time-frame in the context of potential cost savings in the Phase III development program. We do not intend for these fund reallocations to affect in any way the Non-Phase Specific Capital Improvements program.

Emergency Preparedness

Question: Among other activities, you conduct a number of analyses dealing with General Contingency Planning, including the development of a Departmental energy emergency response management system; development of policies and programs to support the Administration's free market energy emergency preparedness policies; development of impact mitigation strategies; establishment of a permanent Emergency Response Working Group and plans to utilize this group during energy emergencies. In general, how far along are you in the development and analyzing of these and other similar actions and policies?

Answer: In general, significant progress has been made in both the analysis and development of these General Contingency Planning activities. For example, with the recent escalation of hostilities in the Persian Gulf, key elements of the Department have been active in monitoring the situation and analyzing an array of contingent responses. Meanwhile, efforts to develop and refine policies and programs that will support the Administration's basic free market energy emergency response policies, and aid in mitigating the potential adverse impacts of an energy emergency, continue.

Question: Are these activities of a continuing nature to be fine-tuned from time to time, or would you expect policies and programs to remain constant once they are finally established?

Answer: It has long been the Department's policy that energy emergency planning is a continuing process, with adjustments made to policies and programs, as needed, to anticipate or respond to changing circumstances. That policy has not changed. Thus, while our overall goals and strategic objectives are firm, there is sufficient flexibility in the supporting policies and programs to ensure our ability to respond to a very wide range of energy emergencies.

Question: Are the development of such policies and programs performed on a priority basis?

Answer: Yes. Good management practices and necessarily limited resources dictate the maintenance of a system of priorities in connection with policy and program development. Reflecting such practices, program and policy development priorities are established, monitored, and administered through the Department's management-by-objectives program.

Question: Which of the higher priority activities remain to be completed and when do you expect they will be?

Answer: As discussed above, it is unlikely that any of these activities will ever be "completed," due to the need for on-going review, analysis, and, if necessary, change. However, in relation to the current state of readiness of these policies and programs, we can state the following:

- SPR distribution management procedures will continue to be refined as a result of further testing of the SPR system, to include possibly an actual test sale.
- Policy analysis of SPR use options will continue with particular focus on issues related to the SPR Drawdown Plan.
- Further refinements will be made to procedures governing the operations of the National Emergency Sharing Organization and the National Oil Board, DOE-administered activities that support U.S. involvement in the International Energy Program, and NATO Civil Emergency Preparedness, respectively.
- Emergency response management procedures and supporting systems will undergo continued refinement to include the development of improved data collection and situation analytical techniques, and the development of an automated Decision Support System that will allow the rapid processing of information in useful displays for decisionmaking.
- Major exercises, including the NATO exercise, WINTEX-CIMEX 85, and possibly a test sale of the SPR, will be planned for and conducted. The bulk of the planning for AST-5, currently scheduled for the first quarter of FY1986, will take place in FY1985.
- Procedures to implement DOE responsibilities for meeting defense priority fuel requirements will be completed during FY1985.

Question: What impact will the budget amount you have requested for FY1985 have on completion of the higher priority items?

Answer: Sufficient funds are included in the request to cover all high priority items. No problems of a budgetary nature are contemplated in completing high-priority projects.

Question: Which items will not be completed as a result of a somewhat limited budget request?

Answer: Priority projects are not currently expected to be constrained by funding limitations, provided the requested amount is appropriated. Approval of less than requested amounts could cause delays in key policy analyses and emergency management support system development. It could also limit the level of effort and support applied to major exercises, thereby having a direct impact on such critical programs as the SPR and the International Energy Program. Every effort has been made to properly program for anticipated FY1985 requirements, and the staffing level and contract support estimates are truly what is felt to be needed. There has been no inflation of these estimates; therefore, any reduction in the request would have measurable impact on priority projects.

Executive Reserve Programs

Question: What is the current status of each of the Emergency Executive Reserve Programs?

Answer: Earlier this year, the Secretary approved the organization of the three DOE Executive Reserves and Assistant Secretary Merklein wrote to Chief Executive Officers (CEO's) of 294 oil and gas, solid fuel and electric power organizations, asking them to name company contacts to help DOE recruit National Defense Executive Reserve (NDER) members. Of the 56 responses to date, 54 were positive. Only two CEO's, citing internal company constraints, failed to name company contacts.

Each Reserve formed a Steering Committee to help guide its policy and operations. The Emergency Solid Fuels Executive Reserve (ESFER) and the Emergency Electric Power Executive Reserve (EPPER) Steering Committees met this May to plan for improving those units' readiness; the Emergency Petroleum and Gas Executive Reserve (EPGER) Steering Committee will meet in June for the same purpose.

Other activities include: following up with CEO-designated contacts and processing papers to continue current reserve appointments and designate new members.

Question: What is your current on-board membership of each of the programs and how do these figures compare with planned membership levels?

Answer: The Emergency Electric Power Executive Reserve (EPPER): Currently, 35 special government employees serve without compensation, four Federal employees are assigned to EPPER and 18 appointments are pending, for a total of 57. Planned strength ultimately would range between 46 and 83.

The Emergency Petroleum and Gas Executive Reserve (EPGER): The Secretary redesignated 37 former members, of whom 14 have resigned because of retirement or job changes. Seven new members are in process, for a total of 30. Planned strength will total between 69 and 114.

The Emergency Solid Fuels Executive Reserve (ESFER): The Secretary redesignated 17 former members; one has resigned; nine new appointments are in process, for a total of 25. Planned strength will total between 30 and 40.

Question: Are you having any difficulties recruiting individuals for the Executive Reserve Program? If so, what is the nature of these difficulties and what are you doing to resolve them?

Answer: Ease of recruiting varies among the three Reserves:

The Emergency Electric Power Executive Reserve (EPPER): DOE is having no difficulty recruiting EPPER members. While there is some turnover in EPPER current membership, such turnover appears to reflect normal industry changes.

The Emergency Solid Fuels Executive Reserve (ESFER): DOE took an important step toward expanding ESFER by appointing three ESFER Area Directors who have volunteered to identify and recruit qualified members.

The Emergency Petroleum and Gas Executive Reserve (EPGER): At this time DOE has had excellent response to Assistant Secretary Merklein's letters to oil and gas industry Chief Executive Officers (CEO's) requesting help in EPGER recruiting. To date, over half of those CEO's have responded positively by naming company contacts. However, perceived conflict-of-interest, antitrust and financial disclosure concerns could deter some oil and gas industry executives from participating. Since the remedy for such concerns requires changing existing law, DOE supports legislative action to remove regulatory roadblocks to industry National Defense Executive Reserve (NDER) participation. Accordingly, on February 21, 1984, the Secretary testified before the House Subcommittee on Fossil and Synthetic Fuels in behalf of S. 1678 provisions to remove impediments to industry NDER participation. Moreover, on May 3, 1984, the Secretary, in a letter to Chairman McClure, further addressed procedural and technical aspects of S. 1678, and in the main, reaffirmed the Administration's strong support for such legislation.

Question: What legal impediments to utilization of the Executive Reserves remain to be addressed and overcome? What specifically are you doing to resolve each of these impediments?

Answer: Some feel that existing conflict-of-interest, antitrust and financial disclosure laws could deter substantial industry involvement in the Reserves. For that reason, DOE supports legislative action such as that included in S. 1678, providing broader and more flexible authority than contained in existing law to use the Reserves.

Public Information Programs

Question: What is the status of your program to develop an emergency public information system, including the enhancement of the logistical support system and the operation of the emergency electronic mail system linking DOE and various state and local governments and public organizations?

Answer: The Department of Energy (DOE) continues to further its energy emergency readiness by expanding the capabilities and number of users of its electronic mail system, DIALCOM, encouraging frequent use of the system for information exchange, and identifying appropriate organizations and parties to be added to the system. This expanded effort provides for better coordination among all groups and gives the Department a ready and quick means of disseminating and receiving information during an emergency.

Currently, DOE has 118 users on its system, including the 50 states and the District of Columbia, 2 local governments, the North American Electric Reliability Council, and Public Interest Groups such as the National Governors' Association, National Conference of State Legislatures and the National Association of Counties. Recent additions include a group of National Defense Executive Reservists (NDErs) participating in a pilot program to assess the merit of adding all Executive Reservists to the system.

Question: What remains to be done in this area?

Answer: Soon to be added to the DIALCOM system are DOE's regional emergency coordinators which will further enhance the Federal/State coordination link. In addition, the Department has a study underway examining the best means to communicate with the Congress.

System enhancements under consideration to assure an uncluttered system during an emergency are (1) data base management, a synthesized reporting system for incoming information, (2) electronic publishing for dissemination of information, e.g., data base generated reports, press

releases, testimony, fact sheets, etc., and (3) computer priority during an emergency to make certain that system capacity can accommodate intensive and extensive usage.

Question: Have states, local governments and other private organizations participated fully in this program, or do they also have problems? What problems are the most prevalent in this regard?

Answer: The state and local governments and private organizations using the system agree that the system is an extremely valuable communication tool. The main problem in the past was ready access to the system which has been resolved by the addition of a third telephone access system, Uninet, to the other available systems - Tymnet and Telenet.

Minor problems have been mainly due to user inexperience. Users are encouraged to contact DOE staff at any time for assistance with computer equipment problems, using DIALCOM features, and reporting any system problems encountered.

Assuring computer priority access and use during an emergency should diminish stated concerns as to DIALCOM capability to quickly expand to meet increased demand.

Voluntary Emergency Private Fuel Stocks

Question: During fiscal year 1984, you planned to establish a voluntary emergency private fuel stocks availability program. What progress have you made in establishing this program? Who do you expect to participate in the program and what incentive, if any, will you need to secure their participation?

Answer: Thus far, during FY 1984, the Department has sent letters soliciting comments on the Voluntary Emergency Private Fuel Stocks Availability Program (VEPSAP) to the sixteen industry associations who are the largest consumers of middle distillates and the state energy offices of all fifty states. DOE has also developed internal operating procedures for the program and prepared an index and brief summary of laws and regulations that could be utilized by the Federal Government to facilitate the planning and operational aspects of the program. The eight responses from industry associations received to date have been less than encouraging. All respondents have expressed an unwillingness to participate for a variety of reasons. The sixteen responses from the states have ranged from generally positive with reservations, to very negative. Some of the states took the opportunity to urge the establishment of a regional reserve or similar special interest program. Such suggestions are not consistent with the VEPSAP program, as currently envisioned.

DOE had hoped to elicit more favorable responses from industry associations, and believed that the program was sufficiently altruistic to provide enough incentive for industry's participation. At the present time, there does not appear to be any incentive, including government subsidy of inventories above normal requirements, that would secure the participation by industry associations in the VEPSAP program. Therefore, the Department is in the process of reassessing the program in light of the responses that have been received.

Early Warning Capability

Question: How much do you expect to spend during FY1984 and FY1985 in the development of your program to provide early warning of impending energy emergencies?

Answer: An uncosted carryover of \$100,000 from 1983 is expected to be utilized in addition to \$125,000 in FY1984 funds and \$175,000 FY1985 funds to improve the early warning capability for energy emergencies. These funds will cover equipment acquisition, access fees for key information services and appropriate technical assistance in systems development.

Question: How does this funding level break down between systems development and purchase of necessary computer equipment?

Answer: Equipment costs will be approximately \$51,000 in FY1984. This is being utilized primarily to purchase Personal Computers to access the Energy Situation Reporting System (ESRS) and a related analytical Decision Support System (DSS). System development for both projects will consist primarily of the transfer of existing data files from the main frame computer to the personal computers and the development of appropriate graphics display features.

Question: In what way do you expect to expand the capabilities of this program through the use of personal computers?

Answer: The use of the personal computers will provide significantly increased flexibility of operation from both time and availability perspectives. Use of this equipment provides an opportunity to improve security in that access to the available information can be restricted as appropriate. Finally, the personal computer use provides capability for the Office to consider mobile and remote site use in accordance with the latest Continuity of Government plans.

Question: Who will use these computers and who will pay for them?

Answer: The computer equipment utilized in the continuing development of emergency early warning and analytical systems (ESRS & DSS) will normally be operated by employees of the Energy Data Analysis Branch and the Studies and Integration Division. During emergency operations, other employees of the Office of Energy Emergencies would be expected to utilize this equipment. The total cost of operation of these personal computers would be within the budget of the Office of Energy Emergencies.

Question: How far along is the development of this aspect of the program?

Answer: The use of personal computers to handle emergency energy data and to do analyses to provide early warning has just been initiated. It is expected to mature in FY1985. A prototype system, the DSS, has been demonstrated and is being expanded to increase its capability. At present, the DSS can directly access a limited set of international oil data kept by the EIA. In FY1985 we expect to include most OECD international energy data, a substantial amount of domestic energy data, and a directory of response actions keyed to critical personnel and resources.

Naval Petroleum and Oil Shale Reserves

Question: Turning now to the Naval Petroleum and Oil Shale Reserves program, the Department recently conducted a series of studies to evaluate contractor staffing, operational procedures and work accomplishment methods. Among other things, the studies called for reduced contractor staffing at NPR 1 and 3; reduced levels of subcontracting; and a slow down of the expansion of the enhanced oil recovery programs. With regard to contractor and subcontracting levels, how much will each of these be reduced and what are the savings associated with these reductions?

Answer: Due to studies recently conducted at both field sites, the FY 1985 budget request reflects reduced contractor operator staffing. Contractor staffing has been reduced at NPR-1 by 54 for estimated annual savings of \$1,650,000. Contractor staffing at NPR-3 has been reduced by 32 for an estimated annual savings of \$800,000. With regard to subcontracting, the studies at NPR-1 dealt more with operational procedures for the use of subcontractors and more efficient use of contractor personnel. Recommendations included revising work procedures for maintenance, ensuring the use of experienced subcontractors, and discontinuing subcontractors with unsatisfactory performance. The studies did not provide quantified data as to the subcontracting level of effort or

estimated cost savings, though savings will materialize in that specific work performed by subcontract will now be accomplished by the contractor.

Question: Will these reductions in any way adversely impact the development, operation or maintenance requirements of either of the Reserves? If so, in what ways will they be so impacted?

Answer: It is expected that there will be no adverse impact, and none has been observed, on the operations of either of the Reserves.

Question: With regard to the Enhanced Oil Recovery (EOR) program you report that the fields are entering the stage of development in which secondary recovery methods must be emphasized. If this is the case, why are you slowing down expansion of the EOR program? Please explain exactly what you are intending to do to promote secondary recovery?

Answer: The Enhanced Oil Recovery (EOR) programs at NPR-1 and NPR-3 are in the pilot stage at this time. That is, they both require data on operations, recovery efficiency and cost before a commitment is made to full operations.

The program at NPR-3 has had some difficulty reaching the production stage because of the uncertain nature of the techniques being tried. The thermal enhancement technique, or fireflood, has not achieved the full temperature gradient required for efficient recovery, so the program schedule has been extended to explore additional techniques of enhancing the effectiveness of the combustion process. Included among the additional techniques is oxygen enhancement of the injected air and preheating the formation with steam to allow sustained combustion which is essential for the enhanced recovery process. Similarly, the polymer process has required more time to collect data on the reservoir response in order to make a decision on the economics of the process.

The NPR-1 light oil EOR program in the Shallow Oil Zone, which is a state-of-the-art project, is in the planning and early data gathering stage and is relying on the experience gained from other field operations including those developed by our unit partner. The initial schedule for extension of the program beyond the pilot has been deferred until operational and environmental data are acquired, equipment ordered and the construction project completed, which is expected to be in October 1986 or early 1987. The plan now calls for a pilot to begin development in FY 1984, but the exact placement of the pilot has not been determined because the early data on reservoir compatibility indicates that the initial site selected may not be optimum for the pilot.

Development Drilling

Question: On page 152 of your justification, you report that you will slow down your developmental and exploration drilling program and, at NPR-1, drill just 68 developmental and 5 exploration wells during FY 1984. Have these plans changed since publication of this justification? Have you changed your plans to drill 58 developmental wells in FY 1985? If so how many of each will you in fact drill during these two fiscal years?

Answer: Because of changing reservoir conditions and operational policies, the FY 1984 drilling program has been revised to 55 wells total, made up of 30 development wells, 5 exploratory wells, and an additional 20 development well sites identified but not yet approved for drilling in FY 1984. The FY 1985 drilling program has been revised to 46 development wells, along with start-up of the deep test exploration well.

Question: Will the changes in your drilling program affect the previous total production and revenue estimate for NPR-1? If so, in what ways? Will downward changes in production and revenue estimates be partially or wholly made up due to enhanced secondary recovery efforts?

Answer: It is not anticipated that the reduced number of wells drilled will adversely affect production or revenues. It has been determined through additional data gathered during the year that the wells eliminated from the drilling program would either have been drilled into the gas cap resulting in no additional oil production, or that these wells were not required to support maximum efficient rate (MER) production at the present time. As time progresses and the reservoirs production decline, it is anticipated that some of the wells deleted from the FY 1984 and FY 1985 programs will be required to support MER. Assuming continued production, such may be necessary in FY 1988 and FY 1989. Due to the uncertainty regarding the amount and timing of production from enhanced recovery techniques, current production estimates do not include production due to EOR. However, if successful, EOR will increase recoverable reserves estimates.

Question: For the record, please provide a specific breakdown of the proposed FY 1985 reduction of \$41,306,000 in the Development Drilling program.

Answer: The following table provides the breakdown of the \$41,306,000 reduction from the original FY 1984 program to the FY 1985 requested program. The reduction is related to both lower unit costs and a decrease in the number of wells drilled.

Zone	FY 1984		FY 1985		FY 1985 Revised	
	No. of Wells	Cost	No. of Wells	Cost	No. of Wells	Cost
Tulare	4	\$1,104 ^{1/}	4	\$760	6	\$1,070
Shallow Oil	29	9,541	20	6,920	26	8,930
Stevens Shallow	63	67,725	30	25,800	14	10,000
Stevens Deep	1	1,364	4	5,520		
Olig	<u>1</u>	<u>572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	98	\$80,306	58	\$39,000	46	\$20,000

1/ Includes initial steam cycling costs.

Operations and Maintenance

Question: For fiscal year 1985, you have requested an increase of \$12,668,000 over FY 1984 level for routine repair and maintenance of recently completed new facilities, increased repair and maintenance of aged installations and operation of recently completed facilities, all at NPR-1. Has work identified here and requested for funding in FY 1985 been ignored or delayed from previous years, or is it all routine, annual work? Will we continue to see increases of this size in future years?

Answer: The increase in FY 1985 in Operations and Maintenance was based on an aggressive program of waterflood activity in the Stevens Zone, including routine replacement of filters plus overhaul of the compressors in the LTS #2 gas plant. This work is routine annual activity that will fluctuate based on the specific requirements each year. Because of reduced waterflood operations in FY 1984 and FY 1985, more efficient use of sub-contractor personnel, and decreased utilities costs, it is anticipated that the O & M funds required in FY 1985 will be \$110,012,000, a reduction of \$19,623,000 from the amount originally requested.

Question: In terms of your budget justification, what is the differentiation between that work described as Production Operations and that work described as remedials?

Answer: Remedials refers to major maintenance work performed on the wells themselves in order to maintain the wells in optimum producible condition, restore to production wells which have ceased producing, and

alleviate declining production rates of individual wells. Remedial well work includes such items as installation of pumps for artificial lift, gas/oil ratio control, repair/replace well casing, well stimulation, and replacement of well tubing. Production Operations refers to the operation, repair and maintenance of all other facilities (except the gas plants) required for production and sale of oil and gas. This includes tanksettings, pipelines, shipping stations, all water systems (injection and disposal), roads, field buildings, mobile equipment, electrical power and utilities, environmental compliance, and secondary and tertiary recovery methods. In summary, Production Operations encompasses all routine operation and maintenance of facilities from the point of production to sale, while Remedials focuses on major workovers of producing wells.

Question: Your Development Drilling program at NPR-1 has been proposed for a reduced FY 1985 effort, yet your proposed FY 1985 budget for Drilling Supervision calls for a 33% increase over FY 1984. How do you explain this apparent discrepancy?

Answer: Drilling Supervision provides for the supervision and management of Exploration Drilling, the Remedial program and miscellaneous supplies and services (principally logging and core analysis) in addition to Development Drilling. While costs associated with Development Drilling are reduced because of a decrease in drilling activity in FY 1985, this reduction is offset by increases for management of the Remedial program (295 well jobs in FY 1985 as compared to 180 well jobs in FY 1984), inflation, and the transfer of the core analysis activity (\$375,000) from Administrative Support to Drilling Supervision to provide for a more logical and consistent grouping of activities for presentation and accounting purposes.

Development Facilities

Question: Has the A and E work associated with construction of additional headquarters facilities at NPR-1 been completed? If not, when is it scheduled for completion?

Answer: The requirement for new space at NPR-1 to replace the existing trailers and old buildings has been analyzed and is being reviewed by DOE to determine whether the requirement is justified and to select the most economical alternative available to the Government. The original concept of an expansion to the present administration building was broadened to include alternatives of constructing other types of buildings at NPR-1 or to lease space in Bakersfield. A decision will be made on the exact type of replacement, if justified, based on the analysis and the Committee will be notified of that decision. Should the analysis lead to selection of the construction alternative, the A and E work will be completed expeditiously.

Question: Based on preliminary or final estimates, what is the current projected cost of this new facility? As you have not requested construction funds for this new facility in FY 1985, do you expect the costs of the project will increase over the course of FY 1985?

Answer: The current projected costs for an addition to the administration facility is \$5,873,000, including demolition and site restoration of the old facilities. It is not anticipated at this time that the cost of the ultimate choice will be significantly higher than that currently projected.

Question: Is this project of high enough priority that we will likely see funding for its construction requested in FY 1986? If not, when, if at all, would you expect to build this necessary facility?

Answer: A budgetary decision will be made subsequent to the determination on continued production beyond April, 1985, pursuant to the Naval Petroleum Reserves Production Act of 1976.

CONCLUSION OF HEARINGS

Senator McCLURE. That will conclude our scheduled hearings to review the fiscal year 1985 budget requests of the agencies under the subcommittee's jurisdiction.

The subcommittee will stand in recess, subject to call of the Chair.

[Whereupon, at 4 p.m., Wednesday, May 23, the hearings were concluded, and the subcommittee was recessed, subject to the call of the Chair.]

DEPARTMENT OF EDUCATION

OFFICE OF INDIAN EDUCATION

[CLERK'S NOTE.—The subcommittee was unable to schedule a hearing for the Office of Indian Education.]

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

AUTHORIZATION

Question: I understand that authorization for these programs runs out September 30, 1984. Has the Department submitted legislation to extend the authorization through 1985? What level is being requested?

Answer: Yes, the Department transmitted to Congress on February 14, 1984 its proposed legislation for a one-year extension of the Indian Education Act. The authorization requested for fiscal year 1985 is at the funding level requested in the President's 1985 budget.

Question: We understand that the House may be considering programmatic changes rather than a simple extension. Are you aware of any of those proposals? If so, can you briefly describe them?

Answer: At the present time, H.R. 11, which contains a simple extension of the Indian Education Act, is still pending in the House Education and Labor Committee. The Subcommittee on Elementary, Secondary, and Vocational Education has not yet marked up this proposed legislation and as a result, no information has been received by the Education Department regarding what they may be considering. As soon as their proposed amendments to H.R. 11 are made available to the public, we will be glad to share our knowledge of the House action with the Senate committee. Should the Senate committee wish advance information, it is suggested that the staff communicate directly with its appropriate House counterparts. The Department is willing to assist in facilitating communications, if so desired.

FISCAL YEAR 1983 OBLIGATIONS

Question: Page 7 of the justification notes that \$545,617 was contingently obligated under court order. What was the case and the court finding?

Answer: The case is United States of America vs. Chicago Board of Education, and involves a dispute over funding for desegregation assistance for the Chicago public schools. While this case has nothing to do with Indian Education Act programs directly, the judge in the case, Judge Milton Shadur, attached all of the Department's fiscal year 1983 funds that were not going to be used for their programmatic purposes and enjoined them from subsequent obligation

prior to the end of the fiscal year. He imposed an order precluding these funds from reverting back to the U.S. Treasury, and ordering that they be contingently obligated to the Chicago public school system for use in desegregation assistance, pending final resolution of the litigation. The case is still before the United States District Court for the Northern District of Illinois, and thus these funds remain frozen pursuant to the District Court's order.

COMPREHENSIVE COMPUTER SYSTEM

Question: In 1984 the Office of Indian Education plans to implement a new comprehensive computerized program data support system. Is this a department-wide system? How much will it cost the Office of Indian Education appropriation? Is a multi-year contract planned? Please provide details for the record.

Answer: The system is in place. It was developed over a three-year period at a total cost of approximately \$30,000. The system operates through the Department of Education's central computing facility, and will be an ongoing system. In fiscal year 1984, costs associated with the system will be for maintenance, operation and possibly some minor modifications. An estimated \$5,000 will be expended. The following description of the system highlights the types of information that it was developed to provide.

Indian Education Programs

Information Support System

A computerized information support system has been designed to facilitate descriptive analysis and reporting of characteristics of formula and discretionary projects supported under the Indian Education Act. The following are examples of reports that will be available:

- o All current projects by State in descending order of grant amounts
- o The technical assistance needs of the Part A grantees, by frequency of needs identified
- o Projects by location and grantee type; location identifiers include reservation, urban, rural, and specific site
- o Projects for children and adults by subject areas and numbers of participants
- o Total number of children participating in projects broken out by type of activity, subject area, grade level, time, (regular school, after/out of school, summer) and by program part, grantee type and project location
- o Adult education projects by needs, objectives, subject areas and activities
- o Personnel development projects by academic levels and numbers of participants and by areas of study

The system will also assist Indian Education Program management in tracking the status of project monitoring and grantee reporting.

A similar system will be implemented for analysis and reporting of data on the Indian Education Fellowship Program.

INDIAN-CONTROLLED SCHOOLS IN ALASKA

Question: The Department determined last year that Indian-controlled schools in Alaska were ineligible for funding under the Part A set-aside as the schools are not located on a reservation. For the purposes of programs administered by the Bureau of Indian Affairs, the Indian Health Service, the Indian housing program of the Department of Housing and Urban Development, and every other Federal program for Indians, the entire State of Alaska is considered to be a reservation. Why should the Department of Education impose more stringent requirements for this program than are imposed for any other Federal Indian program with respect to Alaska?

Answer: In a letter to Senator Ted Stevens, dated November 17, 1983, Assistant Secretary Davenport stated that the Department's Office of the General Counsel had reaffirmed its opinion that Alaskan applicants are eligible under the Indian-controlled schools program only if they operate schools "on or near a reservation," as that term is commonly understood and applied to the rest of the Nation. That opinion was previously stated on February 28, 1978, in an Office of the General Counsel memorandum to the former Deputy Commissioner of Indian Education, Dr. Gerald Gipp.

The same opinion applies to schools in Oklahoma. An Office of the General Counsel memorandum to Dr. Gerald Gipp, dated August 28, 1980, states:

"This office does not agree that the entire State of Oklahoma is exempt from the requirement that the Indian-controlled schools must be located on or geographically near an Indian reservation. There is no basis in the statute or regulations for this type of exemption."

Section 303(b) of the Indian Education Act authorizes grants under the Indian-Controlled Schools program to "schools on or near reservations which are not local educational agencies or have not been local educational agencies for more than three years." The Indian Education Act does not exempt any State from this requirement.

Question: Will this determination have any impact on Alaska's eligibility for funding through any other set-aside for Indians which are contained in various education laws?

Answer: No, it will not. This determination applies only to the Indian-controlled schools set-asides under Part A of the Indian Education Act.

REVISED REGULATIONS

Question: Revised regulations have recently been issued for the Indian Education Act. Did your research on the eligibility of

Alaskan schools uncover any indication of congressional intent that Alaska be excluded from the set-aside program, and if it did not, why didn't you simply clear up the problem in the regulations in view of the fact that you had previously been funding Alaska contract schools?

Answer: Nothing could be found in the legislative history to indicate that it was the intent of Congress to exclude Alaska from the "on or near reservations" requirement. A careful reading of Senate Report 92-384 leads to this conclusion. Our Office of the General Counsel has recently upheld the view that Alaska contract schools are not eligible for the set-aside. In the revised regulations, the Department adhered strictly to the statute.

Question: What is the basis for dropping the requirement that the parent committees be comprised of at least 50 percent Indian members?

Answer: The requirement that the parent committee be comprised of at least 50 percent Indian members was a non-statutory requirement in the current regulations. Regulation requirements not backed by statute were deleted. It should be noted that the new proposed regulations require that "at least half of the members of the committee shall be parents of the Indian children to be served by the proposed project." This requirement is contained in the law.

Question: From the findings of the Part A study, you state that the involvement of the parent committee members led to increased participation in school activities, meetings with teachers, and had made a difference in getting members of the Indian community to accept the project. If Indian membership is decreased, don't you run the risk of losing these identified benefits?

Answer: No. In keeping with the Indian Education Act, projects will still be developed with the participation and approval of a committee composed of, and selected by, parents of Indian children. We do not believe that Indian membership or participation will decrease.

PARENT ADVISORY COMMITTEES

Question: I have received some complaints from parent advisory committees in my State that the school administration pays no attention to the committee's recommendation for expenditure of Title IV funds, and it has been alleged that the Title IV money is just put into the general operating fund of the school. What role does your office play in assuring that the parent committees do, in fact, have some voice in this program?

Answer: The Indian Education Programs Office is mandated by Congress to audit on an annual basis a sample of not less than one-third of the total number of school districts receiving funds under Part A of the Indian Education Act. Program officers, as part of this audit process, review the policies and procedures of the Local Education Agency to ensure that the program for which assistance is sought will have the involvement of parents of Indian children. Project officers routinely meet with the parent committee during these audits to determine the extent to which they are involved.

Question: Has your office ever received any formal complaints that school districts were simply using the Part A funds for regular school operations?

Answer: Yes, but only very infrequently, in less than one percent of the Part A awards. When this occurs, program officers monitor these complaints and recommend corrective action on the part of the Local Education Agency, to conform to the Indian Education Act and applicable regulations governing this program.

EVALUATION OF INDIAN-CONTROLLED SCHOOLS

Question: In 1984, the Conference managers agreed that \$500,000 would be used to conduct an evaluation of Indian-controlled schools. What is the status of this study? Have you received the cooperation of the Bureau of Indian Affairs in the design of this study?

Answer: A draft work statement containing specifications for the study has been prepared and is being reviewed by numerous departmental officials. We anticipate that a formal Request for Proposal (RFP) will be published by late May or early June and that a contract will be awarded by late summer. The Bureau of Indian Affairs has been cooperative in affording us access to a recent pertinent study for review. We anticipate further participation of the BIA in the design and direction of the study.

RESOURCE AND EVALUATION CENTERS

Question: A survey titled "User Survey and Performance Review of Indian Education Resource and Evaluation Centers" found that communications between the Indian Education Programs Office and the Resource and Evaluation Centers was considered poor. What steps have you taken to improve communications between these offices? Has the Indian Education Programs Office improved its timeliness and consistency of responses?

Answer: A permanent project officer has been assigned the responsibility for providing technical assistance to, and monitoring the performance of, the Resource and Evaluation Centers. A high priority of the project officer is to ensure that up-to-date information and consistency of responses from the Indian Education Programs Office is provided to the contractors of the Resource and Evaluation Centers. The project officer is also providing on-going training for the IEP staff in order to make certain that the Resource and Evaluation Centers are given correct information in a timely manner.

Question: The Centers occasionally send copies of their publications to the subcommittee office. A recent publication by Center One contains the following statement on the first page. "Center One's effort will encourage the development of holistic teaching methods to induce student confluent learning." I would submit that only those individuals most knowledgeable in the jargon of education could even begin to hazard a guess as to the direction of Center One's efforts. What does that sentence mean and who makes the determination on the focus of the Resource Centers' efforts?

Answer: One of the major tasks of the Resource and Evaluation Centers is to provide Indian Education Act grantees with detailed technical advice regarding project evaluation, and project management, as well as the development and dissemination of educational materials.

Holistic teaching methods take into account both the affective and cognitive process together as a means for developing techniques in the subject or skills being taught (e.g., culturally-based approaches in teaching math.) State education department agents and district officials have been exploring this approach for several years.

The experience of Center One's (ORBIS) staff was one of the factors which contributed to the granting of a contract to them. Center One is trying to raise Title IV Indian educators' expertise, and provide training to increase and expand educational and administrative abilities. The training techniques developed by Center One are designed to use appropriate methods to help Indian students achieve their full potential for success. Center One makes every effort to help grantees develop their programs in any way that best meets grantees' needs.

The focus of the Resource Centers' efforts is determined by the Director of Indian Education Programs, in consultation with the Assistant Secretary for Elementary and Secondary Education, the National Advisory Council on Indian Education and the Indian community.

DETAIL OF PERMANENT POSITIONS

Question: In your summary of permanent positions (p. 37), you state that from 1983 to 1984 you plan to eliminate two GS-15s, and four GS-14s and increase your GS-12s by five. How do you plan to accomplish this shift? What type of actions are necessary? Adverse actions? RIF's? What prompted you to take this action?

Answer: The change in the grade distribution of the staff in the Office of Indian Education Programs was the result of a reorganization of the Office of Elementary and Secondary Education (OESE), of which Indian Education is a part. The reorganization plan was carefully developed by experienced staff members, from both OESE and the Office of Personnel. The objective of the Indian Education reorganization plan was (1) "To improve the quality of service to IEP grantees; (2) to expand IEP capacities to perform effectively the mandated requirements in a timely fashion; (3) to review evaluation reports regarding grantee performance; and (4) to provide skilled professional support to assist staff to facilitate these activities." The Office of Indian Education Programs was restructured to reduce overhead and to remove one layer of management. Two divisions with nine branches were restructured into four operations branches and one support branch. These changes were accomplished through a reduction-in-force.

Prior to the reorganization, the Office of Indian Education Programs had: 1 SES, 3 GS-15s, 4 GS-14s, 6 GS-13s, and 18 GS-9 to 12 Program Specialists. In essence, an office with 50 positions had 14 managers and 18 program specialists. Such a top heavy organizational structure was not effective or efficient.

The present organization of IEP has: 1 SES, 2 GS-15s, 7 GS-13s, and 27 GS-9 to 12 Program Specialists. The program is functioning well under this new structure.

Question: In view of the fact that the office has only 48 positions, a downgrading of 6 positions from 14s and 15s is a major shift. Will there be programmatic repercussions as a result of these personnel actions?

Answer: No. In fact the program will be able to carry out its objectives more effectively.

DISTRIBUTION OF PARTS B AND C FUNDS

Question: Last year the subcommittee was provided with a funding history of projects supported under Parts B and C which covered fiscal years 1973 through 1982. That material showed that over a 10 year period, 23 Part C projects had received 55 percent of all funds appropriated for that activity. For Part B educational personnel development programs, nine projects have received 51 percent of all appropriated funds.

Realizing that these grants are subject to competitive award, but also realizing that any group which has had several prior successful applications is bound to have an edge on a first-time applicant, what steps does your office take to assist new applicants in preparing competitive proposals?

Answer: Since these are discretionary grant programs, and subject to competition, IEP staff cannot actually assist in the preparation of such proposals. However, the Resource and Evaluation Centers do provide, through workshops and site visits, technical assistance that might assist grantees in improving their skills to insure better quality proposals. This technical assistance is in the area of project design, program management and project evaluation.

Question: We have heard rumors that an amendment may be offered to the Supplemental Appropriations bill to fund some projects which had received grants for a number of years, but which were not successful in the last competition. This would amount to an earmarking of funds for certain projects which we have never done. What would be the Department's position with respect to such an amendment?

Answer: The Department is strongly opposed to such earmarking in particular, and to any supplemental 1984 appropriation in general. Earmarking of funds would violate both the spirit and the letter of the Indian Education Act, which clearly indicates that Parts B and C programs are discretionary grant programs, subject to national competitions.

Question: For the record, please provide a funding history of Parts B and C from the inception of the program through the most recent year for which data are available.

Answer: A funding history from 1973 through 1985 is provided in the following table:

FUNDING HISTORY OF PARTS B AND C OF THE INDIAN EDUCATION ACT

	PART B					PART C				
	Educ. Services	Plan, Pilot, & Demon.	Educ. Personnel Dev. (1005)	Educ. Personnel Dev. (422)	Fellowships	Technical Assist/R&E Centers	Part B TOTAL	Educ. Services	Plan, Pilot, & Demon.	Part C TOTAL
1973	1/	1/		2/	2/	---	\$5,000	3/	\$440	\$440
1974						---	12,000		3,000	3,000
1975						---	11,929		3,000	3,000
1976			\$1,499	\$1,534	\$525	---	15,914		4,000	4,000
1977			1,455	1,536	989	---	14,063		4,183	4,183
1978	\$3,880	\$5,209	1,419	1,578	1,280	\$980	14,346		4,405	4,405
1979	4,508	4,839	2,155	1,845	1,432	653	15,432	\$3,793	1,776	5,569
1980	4,890	3,626	2,008	1,976	1,500	2,000	16,000	4,269	1,161	5,430
1981	3,873	4,679	2,027	1,921	1,484	497	14,481	4,066	1,348	5,414
1982	3,255	3,942	2,057	1,783	1,421	2,351	14,809	3,371	1,842	5,213
1983	3,602	3,339	1,054	929	1,272	2,079	12,275	1,627	1,966	3,593
1983 Supp.	---	---	---	---	---	---	---	1,938	---	1,938
1984 Est.	3,500	2,500	1,200	1,000	1,500	2,300	12,000	1,200	1,800	3,000
1985 Est.	3,500	2,500	1,200	1,000	1,500	2,300	12,000	1,200	1,800	3,000

1/ In the early years of the program, awards were not distinguishable by separate subprogram.
 2/ The Education Amendments of 1974 authorized the EPD 422 program and the Fellowship program. Awards were first made in fiscal year 1976.
 3/ The Education Amendments of 1978 authorized the Part C Educational Services program. Awards were first made in fiscal year 1979.

Question: Is it possible to estimate the percentage of the eligible universe which has to date been served by Parts B and C?

Answer: No, it is not possible to accurately estimate this percentage. In terms of eligible applicants, since the various programs under Part B and C have different eligibility universes, it would be extremely imprecise to attempt such estimates. For example, we would have no way of estimating how many eligible Indian organizations exist. In terms of eligible individuals, for any given year a very rough approximation can be made based on population estimates by age groups. However, over the 11 year history of the program, it would be virtually impossible to track individuals served. Individuals may be served in multiple years and/or by several programs, and of course the potential service population has changed significantly over time.

PENNSYLVANIA AVENUE DEVELOPMENT CORPORATION

[CLERK'S NOTE.—The subcommittee was unable to schedule a hearing for the Pennsylvania Avenue Development Corporation.]

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

Salaries and Expenses

Question: Will PADC be using funds from any sources other than Federal appropriations to support Salaries and Expenses? If so, please provide the details.

Answer: All prospective salary and administrative costs of the staff and board will be funded by the Salaries and Expenses appropriation now being requested for FY 1985.

Question: The justification indicates that approximately \$200,000 provided in fiscal year 1984 for space rental will not be required as the Corporation has not relocated. Will those funds be lapsed? Will a portion of the funds be used to meet pay requirements?

Answer: The justification should have indicated that the \$216,000 amount budgeted for office space rent in FY 1984 would not be needed in its entirety because PADC is not moving to more expensive office space this year. However, since PADC will remain in its current office space, the major portion of this budget will nonetheless be consumed for the payment of rent-- \$170,000. Therefore, \$46,000 of the budgeted \$216,000 will be lapsed at the end of the fiscal year, unless needed for pay or other expenses.

Question: No increase is requested for personnel compensation. As the staffing level remains unchanged from the fiscal year 1984 level, are there not requirements for annualization of the pay supplemental?

Answer: There would in fact be a higher cost for personnel compensation in FY 1985 than in FY 1984 because of the annualization of the January, 1984 pay increase. This differential cost normally would add approximately \$15,000 to the FY 1985 budget. However, because some normal staff turnover is expected in FY 1985, this \$15,000 budget difference will probably be absorbed in the course of the year, so that the budgeted personnel costs for FY 1984 and FY 1985 is the same.

Question: \$446,000 was lapsed at the end of fiscal year 1983. Please provide a breakdown of this amount.

Answer: The lapsed \$446,000 resulted primarily from a savings in office space rental costs and personnel costs. During the FY 1983 budget hearings, Corporation witnesses testified that a move of PADC's office from its current quarters to the Old Post Office was likely to occur. In response to this testimony, the Corporation received an appropriation \$100,000 above the amount requested for the purpose of paying moving costs and the higher rental (SLUC) costs of occupying the new office space.

The Corporation ultimately decided not to move to the Old Post Office during FY 1983, because the then Chairman determined that the space which PADC would have occupied was considerably inferior to its current quarters. Consequently, \$100,000 of the \$446,000 in savings results from this decision.

Approximately \$250,000 in budgeted personnel funds were not obligated because the size of the PADC staff was smaller than had been planned or authorized. PADC employees accounted for 35 full-time-equivalent manyears of labor during FY 1983, compared to an authorized ceiling of 39. For various reasons, the equivalent of four positions were not filled last year. (This year, however, all vacant positions have been or are in the process of being filled.)

Together, therefore, a decision not to relocate PADC's office and fill all the available employee positions during FY 1983 resulted in a savings of approximately \$350,000. An additional \$100,000 in savings resulted in various other object class categories, including benefits for former personnel and other services.

Proposed Move

Question: An increase of \$41,000 is requested in anticipation of the Corporation's move from its present location. Has an alternative location been selected? If so, where? If any details on rental costs are available, please supply them.

Answer: The \$41,000 increase is the estimated amount necessary for PADC to physically move its equipment and furniture to another location. The cost of renting alternate space is not known at this time, because an alternate location has not been identified. Consequently, the FY 1985 estimate of \$200,000 for SLUC is not based on known future costs. However, PADC believes it will be sufficient unless there is a major increase in rental rates between its current and future office.

The Corporation does not possess its own leasing authority, and the GSA has denied PADC's request for a delegation of such authority. Therefore the timing of PADC's move and the location of its future office is dependent upon GSA's

response to PADC's written request of January, 1984 for GSA to proceed with a search for a new location. The Corporation has asked GSA to secure space generally within the project area, but with a strong preference for a Pennsylvania Avenue location.

Public Development/Land Development

Question: \$5,000,000 was reprogrammed last year from the funds available for Market Square to hasten completion of the roadwork on the Avenue. Will the roadwork be completed by August?

Answer: The roadway work will in fact be completed by August, 1984.

Question: What is the outlook for participation by the U.S. Navy Memorial Foundation in the development of Market Square Park?

Answer: At this point the U.S. Navy Memorial Foundation is a partner with the PADC in the design and construction of the park at Market Square, which is now in the early stages of construction. Provided the Foundation continues to make periodic payments to the Corporation in accordance with a written agreement signed by the two organizations, it will remain a participant in the Market Square Park project. A major construction contract, to be funded in large part by Foundation funds, is scheduled for obligation in early fall of this year; the scheduled start-up of construction of the memorial at that time will not occur absent the receipt of Foundation funds.

Question: For the first time in several years, fiscal year 1984 funds are projected to be used for historic preservation. Does this relate to facade restoration?

Answer: The Corporation expects that its program to create two mini-historic districts in the eastern sector of the project area will commence this year, although at this point in the fiscal year the projected commitment of more than \$2 million appears high. Facades of historic buildings will either be restored in place or will be relocated and re-erected elsewhere in the eastern project area. The Corporation currently is undertaking the re-erection of one such facade in front of a building on 7th Street. The creation of two districts of historic facades along 7th Street and 8th Street will occur as development proceeds in the eastern project area during the remainder of the decade.

Question: Please provide a brief status report on the various development projects now underway.

Answer: There are ten projects in various stages of development throughout the project area. The status of these projects is as follows:

(1) The restoration of the Willard Hotel, on Square 225, is currently being integrated with the development of an office building on an adjoining site. The restored Willard and new office building is scheduled for occupancy in 1986. The hotel and underlying land has been leased by PADC to the developer for a 99 year period.

(2) The National Place project on Square 254, which includes the newly-renovated National Theatre, office space, a hotel, and retail space, will be fully operational after May, 1984. The project's underlying land has been leased to the developer for a 99 year period.

(3) The National Press Building on Square 254 is currently undergoing a major renovation to its office space and retail facilities. It is scheduled for completion during 1984.

(4) The Old Evening Star Building, a landmark-status structure on Square 322, is scheduled for a major renovation to its office space and the construction of an addition as well. Renovation will begin after the building's current tenant vacates the space later this year. (PADC participated in the assembly of land for this development).

(5) A major office and retail development project on Square 348 is scheduled for commencement in 1984. The Cadillac Fairview company will begin the first phase of a 750,000 square foot structure very shortly. (PADC participated in the assembly of land for this development).

(6) The Corporation is currently advertising the availability for development of a major site on Squares 408 and 432, directly across from the National Archives. Responses to the public offering will be due this summer, with the Corporation's selection of a developer scheduled for later in 1984. The Corporation expects housing and office development to occur here, on a site PADC will either lease or sell to the selected developer.

(7) A small office building having historic merit is nearing the completion of a major renovation. Located at 717 D Street, on Square 431, the building will house office and retail space when it opens for occupancy in summer, 1984.

(8) The Corporation continues to negotiate with a newly-reconstituted development team selected to develop a commercial structure at the corner of 7th and D Streets, N.W. The project will include new commercial space behind a facade of several historic buildings formerly located at that site, and now in storage awaiting reassembly. The property is leased by PADC for a 99 year period.

(9) The Sears World Trade Center building on Square 460, formerly the Apex or Central National Bank building, is nearing completion and has in fact been occupied since early, 1984. (PADC participated in the assembly of real estate for this project.)

(10) The Federal Triangle project, situated on Squares 459 and 460, is undergoing site preparation work at this time. When construction is completed in several years, this multi-use development project will include commercial office space, a hotel, and 196 housing units (PADC participated in the assembly of real estate for this project).

Question: What is the estimated income to PADC from rental and lease agreements?

Answer: The Corporation will earn approximately \$4 million in FY 1984 from the lease of real estate. In addition, over \$9 million will be generated from the sale of real estate, for a total of over \$13 million for the fiscal year. For FY 1985, the Corporation expects to receive an equal amount of lease revenue, and perhaps more from the sale of real estate.

Question: How do you propose to spend the income?

Answer: The Corporation will use this income to pay interest or principle on outstanding debt with the U.S. Treasury, property management expenses, or for future purchases of real estate. All revenue earned in FY 1984 and FY 1985 is expected to be entirely used in this manner.

General Accounting Office Review

Question: Did the General Accounting Office conduct a review of the Corporation last year? If so, please provide a summary of their findings for the record.

Answer: The General Accounting Office conducted an audit of the Corporation's financial records and statements for the fiscal year 1983. Although the final report from the Comptroller General has not yet been issued, the Corporation has been informed verbally that the GAO found no material errors in our records or statements, and that it will render an "unqualified" opinion on the statements for each of our U.S. Treasury funds.

DEPARTMENT OF ENERGY
OFFICE OF HEARINGS AND APPEALS

[CLERK'S NOTE.—A formal hearing was not held on the fiscal year 1985 budget request for the Office of Hearings and Appeals. The following statement was submitted by George B. Breznay, Director of the Office of Hearings and Appeals.]

[The statement follows:]

Mr. Chairman, members of the Committee, I appreciate the opportunity to appear before you today to discuss the operations of the Office of Hearings and Appeals.

Fiscal year 1983 was one of accomplishment in every program area of the Office of Hearings and Appeals. Most significant was our progress in the area known as Subpart V proceedings. These are proceedings in which the Office establishes a claims procedure to return to injured parties monies which have been received through Consent Orders or other enforcement actions. During Fiscal Year 1983 alone we received over 12,000 applications for refund from individuals, large and small businesses, utilities, municipalities, housing authorities, and other government entities -- virtually every segment of the public. This constitutes the bulk of the approximately 13,000 applications we have received to date. As of March 1, 1984, we have completed processing approximately 12,500 of those applications, and have distributed refunds amounting to more than \$25,800,000.

While administering these Subpart V proceedings and processing this very substantial number of refund applications, we continued to make progress in all other program areas. For example, 368 separate enforcement cases were concluded during this past fiscal year. All of these compliance and enforcement-related cases are vigorously contested because of the sums of money involved. In addition, these proceedings usually involve complex legal and factual issues. As a result, completing 368 of these cases is a significant accomplishment. We also completed 241 non-enforcement cases involving petitions pertaining to the prior regulatory program, Freedom of Information Act appeals, and other matters. Our inventory of open cases in the non-enforcement area was reduced by approximately 12 percent.

At the end of February, 1984, the OHA inventory consisted of 927 open cases -- including 453 recently instituted Subpart V proceedings. These new Subpart V proceedings, filed by the Economic Regulatory Administration on October 13, 1983, involve \$112 million out of a total of approximately \$394 million (including interest, as of December 31, 1983) in refund monies referred to OHA for distribution. We are actively processing these cases. We also expect to continue during FY 1984 to assist the United States District Court for the District of Kansas in establishing procedures for the distribution of overcharge amounts in excess of \$1 billion. In a decision issued on September 13, 1983, the District Court referred the remedy stage of the Department of Energy Stripper Well Litigation case to the Office of Hearings and Appeals. The court directed OHA to engage in fact-finding to determine who bore the impact of overcharges at issue in that litigation and in what amounts. We subsequently issued a notice expressing our preliminary views on the special refund procedures to be used in this proceeding, and comments were received from the public.

During FY 1985 we project continued progress in processing refund applications, as well as completion of approximately 861 compliance and non-compliance cases. This level of productivity will result in an inventory decrease of open cases of approximately 31 percent. As you know, our budget request of \$5.6 million will permit us to maintain a staffing level of 95 full-time equivalents during FY 1985. This is the same staffing level authorized for FY 1984. I believe that this level of staffing is sufficient in view of our present workload.

This concludes my prepared presentation. I would be pleased to respond to any questions which you might have.

WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

[CLERK'S NOTE.—A formal hearing was not held on the fiscal year 1985 budget request for the Woodrow Wilson International Center for Scholars. The following statement was submitted by James H. Billington, Director.]

[The information follows:]

The 15th anniversary of the enabling legislation that created The Wilson Center seems a good time to take stock of what the Center is and might be. I believe that The Wilson Center has become a unique national institution with a special opportunity now to affect the broader society.

The Center is unique because of its central location in Washington. This city contains the world's greatest repository of scholarly resources and the world's most important repository of political power. This presidential memorial was created by the Congress to be an active intermediary--both physically and spiritually--between those two special assets of this city. Our home in the fine old castle building at the heart of the Smithsonian Institution, about equidistant between the Capitol and the White House, physically places the Center at the center. We are a presidential memorial, within a historic monument, beyond partisanship, with a growing, catalytic role in the intellectual life of the capital. Our life of dialogue is distinctive for its intellectual substance and its broadly representative and nonpartisan nature.

The Center is also unique as the only place that brings annually to Washington world-class scholars in significant numbers for independent research in the humanities and social sciences. The United States has built the world's largest and most sophisticated system of higher education rooted in research. The Center is the only place in Washington where that decentralized, university-based system sends a significant number of its leading figures every year to pursue pure scholarship in this city of politically based advocacy. The Center differs from the high-quality Washington think tanks devoted to direct public-policy research. They generally hire preselected scholars as employees to analyze policy options and/or argumentation for advocacy positions. The Center, in contrast, annually holds an open competition and selects scholars to conduct basic research on self-initiated topics. Wilson Center fellows thus provide a unique resource pool of disinterested intellect for the entire advocacy-oriented capital--and for the public-policy research centers themselves. Because the Center rotates scholars in and out of Washington (rather than scholar-politicians in and out of government), the Center enriches both the university world of research and the advocacy politics of this city.

Finally, the Center is unique because it brings a special international and long-term perspective to a city often preoccupied with parochial and short-term problems. The problems of the world are deepening and multiplying. The United States, which cannot escape them, needs a fuller engagement of analytic intellect and moral imagination from the university-based thinkers whom the Center brings to Washington. An untapped professoriate may in fact be our most important potential resource for new breakthroughs in wisdom and understanding. America benefits through the Center from a continued immigration of ideas, and the Center is therefore aggressively international--both in the composition of its company of fellows and in the subject matter of its research and its meetings.

As an "international center for scholars," the Center has succeeded so far in attracting some of the world's best scholars, thanks to its open competition, its wide net of recruitment, and its tolerance of diversity. It has put these men and women in touch with the vast scholarly resources of the Library of Congress, the National Archives, and the many other places described in our Scholars' Guides. It has provided nonpartisan links with the realities of power, through our 200-odd annual meetings. The challenge of the years ahead is to begin defining and focusing more on the most important problems, without distorting or demeaning the Center's essential commitment to the deep, dispassionate, individual pursuit of truth.

A public-policy think tank necessarily begins with a problem, hires people to analyze it--often in teams and in quantitative terms--and generally seeks to influence public policy directly and fairly immediately. The Wilson Center, however, has a different role. It begins by seeking talented people in whatever field, letting them define the questions; and then it produces an atmosphere suitable for basic research that requires long-range perspective and reflection, as well as qualitative judgments, and that tends to culminate in strategic synthesis.

The Wilson Center has assembled during the last decade the basic elements needed for encouraging genuine breakthroughs in the difficult and elusive task of applying the social sciences and humanities to the strategic amelioration of basic human problems.

Forty-two books appeared last year that were products of work done at the Center, and the variety of subjects under investigation lends a special vitality to discussions in our fourth-floor lunch room and in the Center library. We had a particularly strong group this past year in economic history--a subject clearly important for understanding current problems, but one increasingly rare on the American intellectual scene. In 1983 we had outstanding fellows from West Germany, Hungary, and Venezuela working in this field. We invariably have writers and theologians, anthropologists and military people, as well as those from more familiar academic disciplines. Edmund Morris's colloquium on the second volume of his life of Theodore Roosevelt fascinated colleagues from abroad as well as Americans. This past year, a scholar from Singapore working on the problem of corruption in Asian societies and an American scholar working on Soviet misuse of psychiatry attracted special interest from scholars working in other regions and disciplines.

Cross-fertilization always occurs in unpredictable ways at the Center.

There are now 785 alumni of The Wilson Center: 457 fellows and 328 shorter-term guest scholars. Many of them overseas occupy positions of considerable influence (the political importance of scholars being greater in many countries than in the United States). Hardly a day goes by without either a letter or visit from some former fellow. This past summer I had special occasion to sense the loyalty as well as the vitality and variety of our alumni in such distant places as the Soviet Union, China, Japan, and South Korea.

Thanks to the vision, constancy of support, and rising interest of the Congress, The Wilson Center now receives an annual federal appropriation for those areas in which governmental support is needed and appropriate: most of the basic fellowship program, core staffing, and key administrative needs. The generosity of many foundations, corporations, and individuals has enabled the Center to increase its annual private funding up to a point where it now nearly equals the level of federal funding. Private funding supports some staff and special programmatic activity, experimentation and outreach, and, of course, the highly successful Wilson Quarterly with its 100,000 paid subscribers. Thus a solid formula has evolved for the joint public-private funding envisaged in the original legislation for this new type of "living" presidential memorial.

The Center has now embarked on a search for endowment, and this search continues the public-private cooperation that has characterized The Wilson Center from its beginnings. As its congressional charter specifies, the Center's Board has the power to solicit and accept gifts and grants from a variety of sources. This power has always been used to strengthen and extend the basic purposes of the Center as conceived by Congress and made possible by appropriated funds. Because we value both the symbolism and the reality of public-private cooperative support for an independent and international presidential memorial, we seek to attain more permanence and dependability in its funding on the private as well as the public side.

The continued base of solid public support provided by the Congress has enabled the Center to increase substantially the funding it can raise from other, nonappropriated sources to expand its program of outreach to the nation (through such means as the new biweekly discussion program the Center has initiated for national public radio). Raising an endowment to cover part of the nonappropriated portion of the Center's budget will help long-term planning and free the Center's national outreach program from any risk of having to tailor priorities to fit any special perspectives or short-term preferences of other funding sources. The Center has been and will always remain fully accountable for all its expenditures and activities both to its sustaining congressional committees and to its presidentially appointed Board of Trustees.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

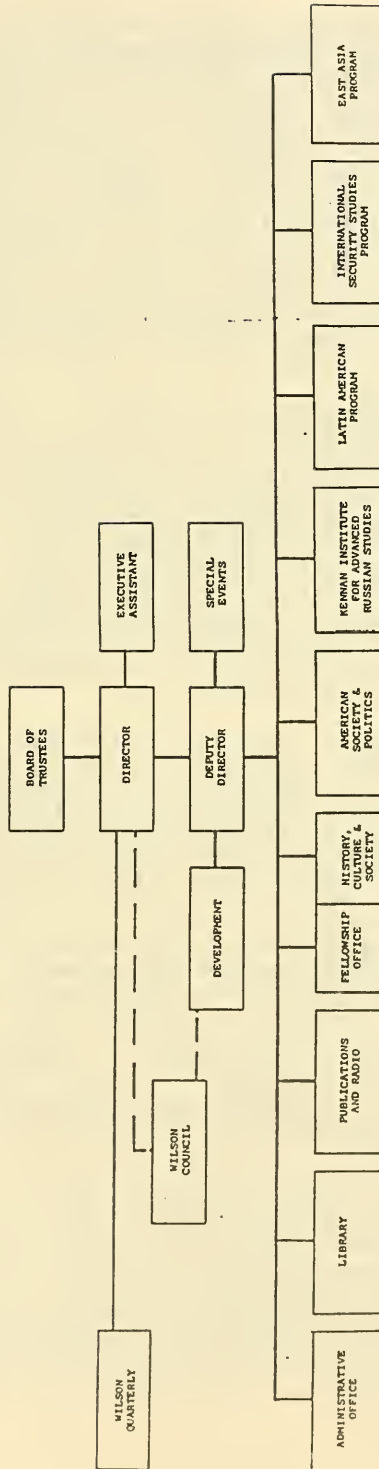
- Q: Please provide an organization chart of the Center staff.
- A: A current organization chart is attached.
- Q: Please provide a brief description of each of the Center's programs.
- A: The information follows.

History, Culture, and Society: In this program--the largest and most diversified--the Center accommodates fellows who work on geographical regions not represented by other programs (e.g., Africa, Europe, the Middle East, and South Asia), on comparative studies that cut across several global areas, or on international relations. The program is also receptive to projects that study the distant as well as the recent past and to those with theoretical, philosophical, or theological dimensions. It particularly welcomes projects that promise to make a major contribution to our understanding of the human condition or attempt broad synthesis involving different fields or different cultures.

American Society and Politics: Through this program, the Center seeks fellows with projects that develop new perspectives on the evolution of modern American society and that emphasize the interplay of ideas, values, and institutions in the emergence of our present civic culture. The Center is particularly sympathetic toward research which would treat public issues within the context of underlying changes in the patterns of American Society as a whole. Proposals should counter, so far as possible, the tendency toward the fragmentation of knowledge on American culture which results from the necessarily specialized character of intellectual life in the disciplines and professions. Projects that make use of historical perspective are especially encouraged.

Kennan Institute for Advanced Russian Studies: Established in 1975, this program supports advanced research on both contemporary and historical subjects on Russia and the U.S.S.R. by scholars in any field of the social sciences or humanities. Kennan Institute fellows, like those of the Center as a whole, do not pursue applied or contract research. In addition to its program of fellowships, the Kennan Institute each year offers visiting grants that provide per diem support for up to one month for scholars in Russian/Soviet studies. In the awarding of visiting grants, preference will be given to scholars who have recently completed their Ph.D.'s, and/or those who have particular need for the resources of a major research library.

THE WILSON CENTER



Latin American Program: Established in 1977, this program supports advanced research by social scientists and humanists on Latin America, the Caribbean, and inter-American affairs. Although proposals on any subject will be carefully reviewed, there is particular interest in research on a number of central themes: (a) the relationship of the international economic order to domestic choices; (b) the evolution of U.S.-Latin American relations, and Latin America's international role more generally; (c) the causes and dynamics of authoritarianism, as well as the process and prospects for redemocratization; (d) the interplay between cultural traditions and political institutions; (e) the history of ideas in Latin America, especially as they bear on contemporary public policy choices; (f) the viability of alternative development models in the area; and (g) emergent forms of non-state-organized social organizations relating to culture and collective identity.

International Security Studies Program: Established in 1977, this program proceeds with a broad definition of security issues. Its ultimate objective is to refine the analytical tools used in the development and evaluation of security issues. The program encourages the adoption of comparative and regional perspectives to investigate clearly defined issues against a body of hard evidence. Subjects of special interest include: weapons policy, arms control, crisis management, design and direction of military forces, comprehensive national strategy, political utility of military forces, executive-legislative relations, public opinion and political leadership, economic implications of military activity, technological and resource imperatives in defense policies, nuclear proliferation, and deterrence theory.

East Asia Program: Established in 1979, this program supports advanced scholarly research on Asian culture, history, politics, and society, and on America's relations with Asia. It also aims to foster dialogue between Asians and Americans, between Asia specialists and foreign-affairs generalists, and between scholars and practitioners--on a wide range of Asian problems. The East Asia Program considers proposals relating to all countries of Northeast and Southeast Asia. The program normally will not be interested in proposals that represent the advocacy of particular policies, or that are of interest only to a relatively small group of academic specialists. Instead, it will seek to support research that, in its breadth and scope, will make a major contribution to knowledge of the region, and will simultaneously place contemporary Asian affairs in a broader historical, cultural, philosophical, or strategic context.

- Q: You state (p. 1) that the scholar-selection procedures have been validated. What are the scholar-selection procedures? How were they validated?
- A: The selection of Center fellows is based upon submitted research proposals. Six independent, outside academic panels are convened annually to review applications for each of the Center's six programs and to recommend eligible candidates to the Director. The Director makes recommendations for the final selection of prospective fellows to the Fellowship Committee of the Board of Trustees, which then makes the final appointment of fellows.

Material requested from each applicant

All applicants must complete a form which gives details of their past history in employment, education, and publications. In addition they must submit a research proposal of approximately 2000 words. This proposal statement is the most important item in the selection process and must respond to the following questions: (a) What is the problem to be addressed, its background, and particularly its importance beyond the immediate interests of the specific field of study? (b) What are the basic ideas and hypotheses concerning the problem? (c) What methods or approaches will be used? (d) What body of materials will be drawn upon? (e) Why is the proposed study original? (f) Is there any special relevance of Washington area resources? Since the reviewing panels are composed of persons from a variety of different scholarly traditions and perspectives, we urge the candidate to write in a manner which can be understood by the nonspecialist.

We also ask each applicant to submit a sample of published writing and to provide references from 3-5 individuals. These referees are asked to assess both the project and the applicant: What is the project's importance, particularly its implications beyond the immediate concerns of the specific field of study? To what degree have the key questions been identified? Has a reasonable and promising approach to them been formulated? Are they confident about the applicant's intellectual capacity, experience, and ability to accomplish the proposed study? What is the likelihood that the applicant would contribute significantly to a lively program within the Wilson Center?

Outside review by academic panels

Each of the six programs has an outside review panel, chosen from that program's academic advisory council, including an average of seven individuals and comprising the broadest possible representation of fields, backgrounds, and approaches. All panelists this year were individuals with impressive scholarly credentials.

The panels meet in December, after receiving the applications at least 3 weeks in advance of the meeting, reviewing the full dossier of each applicant and providing written advanced comments on each project.

In our letters to our panels, we urge them to consider the following criteria in their review--the quality of the project itself (the degree to which the key questions have been identified and a promising approach outlined), the likelihood that the work can be completed in such a way as to advance our basic understanding of the topic under study, and the experience and achievements of the candidate. We ask the panelists to judge all the proposals from the standpoint of scholarly excellence and promise and the importance and originality of the proposed project.

At the panel meeting, after all the leading candidates have been discussed, we ask the panelists to recommend to the Director at least five more candidates than we are likely to be able to accommodate. In recent years, because of the excellent pool of applicants, the panels have recommended considerably more

candidates than we are able to appoint. We ask the panels not for a rigid numerical ranking, but rather for some clear cut-off points of quality so that the recommended list can include a wide variety of approaches, projects, and backgrounds.

The Center has no fixed quotas. But we do hope for diversity in our company of fellows--in academic discipline, in profession (journalism, diplomacy, business, labor, government, as well as academia) in geographical representation (both within the United States and throughout the world), in age, and in the approaches and subject matter of the proposed research.

Since we regard the fellows as the heart of the Center and the fellowship selection as our most important single function, the selection procedure has become highly professionalized for each of the six programs and for the Center as a whole. Not only do the Center's fellowship officer and the Director, or the Deputy Director, sit in on all six review panels, but each of the six panels also has its own specialized staff person who bears responsibility for the details of the selection process.

Staff review after the six external panels have met

After the six academic review panels have each recommended a group of eligible candidates to the Director, the Director, in consultation with the staff, reviews these recommendations and the overall group of candidates eligible for fellowships. At this point, the staff person responsible for each program submits a memorandum to the Director which includes a paragraph on each candidate recommended by the academic panels in the context of overall observations and recommendations from the point of view of each of the six programs. The Director then draws up a final comprehensive memorandum discussing fully the entire year's fellowship competition and making his recommendations to the Fellowship Committee of the Board of Trustees.

Meeting of the Fellowship Committee of the Board of Trustees

Along with his memorandum and recommendations, the Director also sends to the seven members of the Fellowship Committee of the Board of Trustees the full dossiers on all the candidates discussed in the memorandum. The Trustees receive complete files on almost 50% more candidates than they will appoint as fellows. (They also receive, of course, the complete list of the names and projects of all applicants for the entire competition.) About 3 weeks after receiving this material, the Fellowship Committee of the Board of Trustees meets (usually in early February) with the Director to discuss and review the recommendations. The final selection of fellows and a small number of "alternates" (individuals eligible for fellowship should declinations occur and space become available) is made at the meeting.

Special cases

A. In addition to this procedure, we have a list of about 90 candidates for "special invitation" whom the Director has the authority to appoint as fellows at his discretion. At the Trustees' request this list was compiled on two occasions and approved by the Board of Trustees on May 14, 1974, and February 22, 1978.

The purpose of this "special invitation" list was to reach that group of scholars who by virtue of their special eminence and resulting commitments would not normally submit applications. Those individuals who now appear on the list were selected through a special external review process.

Since 1975, six individuals from the special invitation list have been appointed Center fellows. (Five others on that list have in fact been appointed as fellows but submitted regular applications and came through the Center's regular competition.) The special invitation mechanism is used sparingly, and the vast majority of the Center's fellows are appointed via the competitive application process.

On very rare occasions, the Fellowship Committee of the Board may also issue a special fellowship invitation to a person of unusual distinction with an important project who is not on the pre-approved list. All specially invited fellows outside of the annual competition also submit a research proposal that is reviewed by outside scholars before final appointment is made.

B. The Center also has a guest scholar program which provides greater flexibility in responding to promising candidates throughout the year. Guest scholars are appointed by the Director after systematic staff review and recommendation for periods of normally one to three months. Every effort is made to ensure outside scholarly review of the projects even of these shorter-term scholars, and appointments are made on a space-available basis after priority consideration has been given to fellows from the annual competition.

The selection process is validated annually by the appointment of outstanding scholars from all over the United States and abroad to serve as members of the Academic Advisory Panels for each Program. These panels insure that only applicants with the highest academic credentials are selected and that the work proposed to be done at the Center is on the cutting edge of scholarship. In 1982, the international programs were reviewed by a special ad hoc outside committee chaired by Jaroslav Pelikan, which validated quality and recommended continuation of the programs for ten more years. A list of current panel members follows.

History, Culture, and Society Academic Advisory Panel

William Barber, Wesleyan University
 Elizabeth Eisenstein, University of Michigan
 Nayantara Sahgal, National Humanities Center
 Hans-Peter Schwarz, University of Cologne
 Charles Moskos, Northwestern University
 Gene H. Outka, Yale University
 Kenneth Winfred Thompson, University of Virginia

American Society and Politics Academic Council

Samuel Hays, University of Pittsburgh
 Jack Walker, University of Michigan
 Michael Winston, Howard University
 Dorothy Ross, University of Virginia
 Hugh Heclo, Harvard University
 Bruce Kucklic, University of Pennsylvania
 Herbert Stein, American Enterprise Institute
 William J. Wilson, University of Chicago

Kennan Institute Academic Council

George F. Kennan
 John A. Armstrong, University of Wisconsin
 George Demko, Ohio State University
 David Granick, University of Wisconsin
 Gail Lapidus, University of California, Berkeley
 Moshe Lewin, University of Pennsylvania
 Alexander Rabinowitch, Indiana University
 Victor Terras, Brown University
 Serge Zenkovsky, Vanderbilt University, Emeritus
 William Zimmerman, University of Michigan

Latin American Program Academic Council

William Glade (chairman), University of Texas
 Albert Fishlow, University of California, Berkeley (visiting)
 Juan Linz, Yale University
 Leslie Manigat, Universidad Simon Bolivar, Venezuela
 Guillermo O'Donnell, University of Notre Dame, CEDES-Argentina,
 IUPERJ-Brazil
 Enrique Florescano, Instituto Nacional de Antropologia y Historia,
 Mexico
 Joyce Riegelhaupt, Sarah Lawrence College
 Mario Vargas Llosa, Peru

International Security Studies Program Academic Council

Alexander L. George, Stanford University
 Hanna Batatu, Georgetown University
 Robert Jervis, Columbia University
 Philip A. Odeen, Coopers & Lybrand, Washington
 Bernard Reich, George Washington University
 Zara S. Steiner, New Hall, Cambridge University
 Charles H. Townes, University of California, Berkeley
 Robert Art, Brandeis University

East Asia Program Academic Council

Donald K. Emmerson, University of Wisconsin-Madison
 Marius B. Jansen, Princeton University
 Chalmers A. Johnson, University of California, Berkeley
 William R. Johnson, George Washington University
 Shigeru Kimura, Asahi Newspaper Company
 Richard L. Sneider, Columbia University

Q: You seek a more effective nationwide communication of research results. How will this activity take place? Will it require additional funds?

A: The more effective nationwide communication of the results of research and of meetings that the Center seeks will be obtained both through the printed word and through the electronic media. We are currently experimenting with a variety of formats for "getting the word out" through publication. These include summaries of discussions being included in the monthly Calendar of Events, more detailed write-ups of meetings in the semiannual newsletter (examples attached), as well as a variety of cosponsored volumes resulting from major conferences held at the Center. These publications are in addition to the already well established Occasional Papers series put out by each program (over 100 in any given year), and the Wilson Quarterly with its 110,000 paid subscribers.

THE WILSON CENTER



MARCH 1984

NEWS

A HALF-CENTURY OF U.S.-SOVIET RELATIONS: KENNAN, DOBRYNIN, TOON

On November 16, 1933, George F. Kennan, then a junior member of the American diplomatic corps, accompanied Ambassador William C. Bullitt as he presented his credentials to Soviet President Mikhail Kalinin at the Kremlin, thereby opening diplomatic relations between the United States and the Soviet Union.

"The events of those days of November 1933 were, indeed, for me, momentous and exciting ones," Kennan recalled in the keynote address of a Wilson Center dinner marking the 50th anniversary of the Kremlin ceremony. Joining him in the commemoration, which was sponsored by the Center's Kennan Institute, were three of his successors—former U.S. ambassadors to Moscow Foy Kohler (1962–66), Walter Stoessel (1973–76), and Malcolm Toon (1976–79)—as well as Anatoly F. Dobrynin, Soviet ambassador to the United States since 1962, whose first assignment in Washington a decade earlier coincided with Kennan's last in Moscow, as ambassador to the Soviet Union under President Truman.

"We were well aware of the great traditional and ideological differences that separated us from our Soviet counterparts," said Kennan of the early years. "But we were all imbued, I think, with the hope that somehow or other the establishment of these new bonds between two great peoples would open up new and more hopeful vistas for everyone."

Yet today, according to Kennan, Soviet-American relations have been "penetrated and indeed taken over by military considerations" to such a degree that "the public is left with the inference . . . that weapons are all that count—that it is they, the weapons, that will some day determine the ultimate outcome of all our differences." Tracing this change both to the postwar establishment between the two powers of a military border down the middle of Europe and to their "even more fateful" development of nuclear arms, Kennan said the two nations have been thrown into "a predicament from which, as of today, they

know no means of escape, and in which they are simply writhing helplessly, at immense danger to themselves and to the world around them." Modern history, he warned, has shown that no weapons race between great industrial powers can be resolved short of "the disasters of war." There are therefore "no considerations—no aspirations, no ambitions, no anxieties, no defensive considerations—which could justify the continuation of this dreadful situation."

Ambassador Dobrynin was no less adamant. "This is the first time in the entire histories of our two countries that there has been serious talk about the possibility of a nuclear war," he said. "Ordinary people are really frightened." Ambassador Toon agreed: "Our relations are perhaps at their lowest ebb since World War II, or at least since the Cuban missile crisis." But the Soviet Union must shoulder "the major responsibility" for deteriorating relations, Toon charged, though he admitted that American talk, particularly about limited nuclear war, has been "irresponsible." He urged Dobrynin, in the interest of "improved mutual understanding," to pave the way for U.S. opinion leaders to "speak to your people on the same basis that you have spoken to us."

The Soviet ambassador again came under fire for his observation that Americans today "seem to forget their own feelings and emotions" at the height of the Cuban missile crisis when they "demand that the Soviet Union accept the deployment of U.S. [Pershing II] missiles at *our* doorstep." But it was Dobrynin who seemed to forget to include Soviet SS-20 missiles in the strategic equation, according to Senator Patrick Leahy (D-Vt.) and Elliott H. Levitas (D-Ga.). These missiles make London or Munich just as vulnerable as Leningrad or Moscow. Indeed, Leahy exclaimed, their deployment was what "brought about the Pershing installation" in the first place.

"We really can't solve this question today of who is right and who is wrong," Dobrynin acknowledged. "We both are guilty." Now "the question is how to get out of this mess, how to prevent worse things from happening."

One way to start, most participants felt, was to recognize that

reconciliation will be slow, that what Kennan called "the normal measure of frictions, misunderstandings, and agonies of adjustment" will always typify dealings among world powers. Easing current U.S.-Soviet tension may demand simply "wisdom, patience, and persistence"—as Ambassador Kohler suggested—or a dramatic leadership effort "unprecedented in determination, in imagination, in courage, and, if necessary, in political self-sacrifice"—as Ambassador Kennan put it. But all agreed that continued Soviet-American dialogue is essential. "We have had too little of it," concluded Ambassador Stoessel. "We must have more."

"DIALOGUE": A NEW RADIO SHOW

The Wilson Center ended its five-year association with the public-affairs radio program FOCUS in mid-1983 to begin preparations for a weekly radio show of its own—DIALOGUE. Made available January 1 by the University of Texas's Longhorn Radio Network to about 117 educational stations across the nation, and by NPR via satellite to its 286 member stations, DIALOGUE continues in the tradition of FOCUS. Both are tightly edited, high-technical-quality radio shows, thanks to their producer, 11-year NPR veteran Mike Waters. Both feature in-depth discussion of key issues and questions—primarily international—among carefully selected specialists.

DIALOGUE, according to its creator, Wilson Center Deputy Director Prosser Gifford, who frequently serves as moderator on the programs, represents "a major new commitment" to sharing Center scholarship with a national audience. In 1984 alone, The Wilson Center's radio-program output will increase threefold over that of 1982-83, when the Center contributed 14 programs to FOCUS. More important, DIALOGUE is distinctive for the way it stands back from news analysis in order to examine historical aspects of contemporary world events.

In January, for example, MIT Professor William Griffith and Stanford Professor Gordon Craig shed light on current U.S.-German relations in a discussion of how the two nations have viewed foreign policy for over 200 years. The following month, Wilson Center Fellows James Donnelly of Ireland and Boubacar Barry of Senegal discussed the impact of the modern market on traditional peasant agricultural systems in their two diverse cultures, and Center scholars Hans Hebl of the Netherlands and Peter Reddaway of Great Britain focused on church-government relations in Poland, East Germany, and the Soviet Union.

March's schedule is no less diverse, with programs on Latin America, the Soviet Union, Ireland, Zaire and the Philippines, and China:

"DIALOGUE on Colombia in the International System." A look at major shifts in Colombian foreign policy since the inauguration of Betancur as president in 1982. Marco Palacios of the Banco Popular in Bogotá and Bruce Bagley of the Johns Hopkins School of Advanced International Studies discuss the Contadora initiative, Colombia's view of the international sys-

tem, the drug trade and its effects on U.S.-Colombian relations, and U.S.-Latin American relations in the wake of the U.S. invasion of Grenada. Richard Nuccio of the Latin American Program moderates.

"DIALOGUE on the Soviet Union: The Stalin Legacy." Moderator Prosser Gifford talks with Wilson Center Fellow Robert C. Tucker and Kennan Institute Secretary Herbert Ellison about current attitudes toward Stalin's role and policies. The Soviet leadership in the post-Brezhnev period is also examined.

"DIALOGUE on Ireland." Two Irishmen—Anthony Malcolmson of the Northern Ireland Archives in Belfast and Center Fellow Tom Garvin—take a look at Irish-U.S. relations over the last 200 years. Among the topics of discussion: immigration and emigration, changes in Irish political thought and views of Britain, and Irish feelings about the United States. The moderator is Prosser Gifford.

"DIALOGUE on the Philippines and Zaire." The effects of the colonial legacy for modern nations are assessed by Center Fellows M. Crawford Young and Theodore Friend in a discussion moderated by Prosser Gifford. The structural and political legacy of Belgian rule for Zaire (formerly the Congo) is contrasted with that of Spanish, Japanese, and American rule for the Philippines.

"DIALOGUE on United States—People's Republic of China Relations." In a program moderated by East Asia Program Secretary Ronald Morse, Fellows Mary Bullock and Yuan Tien examine a warming trend in cultural and scientific relations between the two countries and speculate about future trends in United States—China relations overall.

SPREADING THE WORD

Twenty-five thousand extra copies of the *Wilson Quarterly's* New Year's 1984 issue—with its special "cluster" of articles on "Teaching in America"—went out in mid-January to a nationwide list of schoolboard and PTA executives, legislators, state officials, news people, and business leaders. Major funding for the additional printing and distribution was provided by the General Mills Foundation and McKesson Corporation. The articles continue to draw widespread response from teachers and state and local groups bent on improving the quality of education in America's classrooms. Major newspapers, including the *New York Times* and *Washington Post*, have explored local manifestations of the problems set out in the *Quarterly* essays.

January also marked the publication of *Vietnam as History* by University Press of America, a year after the International Security Studies Program and the *Wilson Quarterly* brought together more than 50 leading historians and analysts of the Indochina war for a two-day conference examining what is now known and not known to scholars about "the higher conduct of the war" by Washington, Saigon, and Hanoi. The 200-page *Vietnam* volume, put together by *Quarterly* Editor Peter Braestrup, contains all 10 conference papers, tightly edited commentaries and dis-

ussion, a bibliography, chronology, maps, and appendices.

Publication of *Vietnam as History* was celebrated at the Center January 31 in an evening dialogue on "The Vietnam Syndrome," cosponsored by the security studies program and the *Quarterly*. The evening's panelists, all veterans of the 1983 conference, were Richard Betts, a senior fellow at the Brookings Institution; Richard Halloran, Pentagon correspondent for the *New York Times*; John E. Mueller, a University of Rochester political scientist and author of *War, Presidents, and Public Opinion*; Don Oberdorfer, the *Washington Post's* diplomatic correspondent and author of *Tet!*; and Colonel Harry Summers, a member of the faculty at the Army War College and author of *On Strategy*. Peter Braestrup was the moderator.

Participants in the evening discussion underlined the importance for contemporary U.S. foreign-policy makers of clearly defining U.S. interests and goals, of getting the Congress and the American people behind them, and of shaping a clear long-range strategy. Various perceived, the Vietnam experience, several speakers noted, continues to haunt Congress, the U.S. Army, the administration, and its critics. As yet, despite a growing scholarly consensus on what happened in Vietnam, there is no political consensus on the "lessons of Vietnam."

For copies of *Vietnam as History* (\$16.75 hardcover, \$8.75 paperback), write University Press of America, 4720 Boston Way, Lanham, MD 20706.

HELPING OUT SCHOLARS

Bringing word of Center conferences to broader audiences—a big part of what *Vietnam as History* is about—is the major new thrust of Center publication efforts. During the last 12 months, the Kennan Institute, together with the Middle East Institute and the Washington Center of the Asia Society, produced *Conference on the Study of Central Asia*, edited by former guest scholar David Nalle, and the East Asia Program copublished two volumes with University Press of America, *Korean Studies in America: Options for the Future*, edited by East Asia Program Secretary Ronald A. Morse, and *Reflections on a Century of U.S.-Korean Relations*.

Two others by the East Asia Program will be published this month: *United States-Japan Energy Relations: Cooperation and Competition* and *Knowledge Systems: Possibilities and Implications*. The first, a Westview Press book resulting from a series of energy seminars at the Center, is cocited by Ronald Morse and Charles Ebinger. The second is the result of a two-day conference convened at the Center by the U.S. Information Agency to help it design an exhibition on artificial intelligence (AI) for the U.S. pavilion at Expo '85 in Tsukuba, Japan. Ten experts in AI took part: *Knowledge Systems*, published by Houghton Mifflin and Dai Nippon Printing of Tokyo and combining in a single volume both the original English and a Japanese translation, is an edited transcript of their remarks.

In the fall, the Center's *Scholars' Guide* series will number an even 10 volumes. The latest in this set of guidebooks to local in-

tellectual resources is *Scholars' Guide to Washington, D.C. for Northwest European Studies*. Compiled by Louis A. Pitschmann of the Cornell University library, it covers Belgium, Denmark, Finland, Greenland, Iceland, Ireland, Luxembourg, the Netherlands, Norway, Sweden, and the United Kingdom.

As research continues for new *Guides* on Southwest Europe and recorded-sound resources, revision of the old *Guides* has begun. In November 1983, Smithsonian Institution Press published a revised edition of *Scholars' Guide to Washington, D.C. for Russian/Soviet Studies*. Research Associate Bradford P. Johnson and former researcher Mark H. Teeter of the Kennan Institute updated the volume, the series' first, published in September 1977. The series' editor is Zdeněk David, a Soviet-affairs scholar who doubles as the Center's librarian.

Copies of the revised *Guide* are available (\$29.95 hardcover, \$15.00 soft) from SI Press, P.O. Box 1579, Washington, DC 20013, which will also supply a current price list and description for *Guides* to Latin America and the Caribbean, Africa, the Middle East, East Asia, South Asia, film and video collections, Southeast Asia, and Central and East Europe.

HIGH-TECH TALK

A new workshop for small numbers of business and government leaders is quietly underway in the Center's East Asia Program. It's a series of meetings designed to explore U.S. research and development (R&D) strategies in high technology and assess our prospects for cooperation and competition with the Japanese.

Japan, said Thomas Zengge in the series' opener November 15, is likely in the '80s to go with what has already brought it success—drawing on American basic research in the development of new products and techniques for using them, particularly in semiconductors and telecommunications. Zengge, director of International Business Information's high-tech group in Tokyo, anticipated continued high levels of private investment in Japanese R&D as well, with limited reliance on government subsidies. Such a climate, he noted, encourages the commercialization of research because companies—understandably—want to get their money back.

Not so in the United States, according to University of Virginia business professor William H. Davidson, author of a book on U.S.-Japanese technorivalry and speaker in the December 19 workshop. Here, government research funds—mostly from the Defense Department—are wasted, he said, because private companies paid to perform research subsequently have little incentive to develop products, especially those with few nonmilitary uses. Taking its cue from the Japanese, however, the Reagan administration, Davidson observed, has begun to make it more attractive for the private sector to fund R&D by changing antitrust laws to allow for R&D consortia and by providing substantial new tax incentives.

Reagan policies have also opened the way for Japanese firms to export defense-related technology, said Gerald D. Sullivan,

assistant deputy undersecretary of defense for international programs, who spoke February 3 about the November 1983 U.S.-Japanese exchange of letters that made this possible. It was inconsequential that Japan had been prohibited from such exports since 1954—spending little on defense research, the Japanese had little to export. But this has changed, according to Sullivan. Japanese military R&D is still not well-funded, but sophisticated military hardware *is* being produced nonetheless, and the Pentagon may be an interested buyer.

Justin Bloom, president of Technology International in Washington, continues the workshop series March 29. His topic: "Have We Missed the Opportunity for Technological Cooperation with Japan?" Future topics include new strategies for multilateral technology cooperation, the U.S. artificial-intelligence exhibit planned for Expo '85, and an assessment of approaches to R&D and industrial policy.

INTER-AMERICAN SEMINAR: WORRYING ABOUT MONEY

With the international debt crisis dominating North-South economic news in 1983, the Center's Latin American Program brought together key representatives from the business, banking, government, and academic communities last year for three sessions of its Seminar on Inter-American Economic Issues.

On May 25, Manuel Ulloa, former prime minister and minister of economy in Peru, warned of "industrial and economic collapse" if Latin America can't put its finances in order within the next two years. Without equity or major investment, caught between high interest rates and low prices for their raw materials, Latin American governments, Ulloa said, now need \$70 billion in new financing—\$50 billion from foreign governments and multilateral agencies, \$20 billion from private banks—to stimulate minimum economic growth of 2-3 percent annually. He added that meeting such a target would also require that no more than 25 percent of Latin America's export earnings—not the current 50 percent—go toward financing its debt.

Ulloa feared that failure to grow at an annual rate of 2-3 percent would make political instability more likely. As it is, he pointed out, the viability of Latin American governments from Venezuela to Mexico to Chile is in doubt; even the leading political parties are too weak to mobilize public opinion in support of belt-tightening measures.

Faced with the prospect of instability, any of a number of major Latin nations including Brazil, Mexico, and Argentina, Ulloa warned, could default on their foreign loans, in effect using the money to boost economic growth to levels that would help promote political stability. Worse still, default by one na-

tion could trigger a chain reaction among the others. But the most tragic side of the crisis to Ulloa is the specter of still-greater unemployment. Unlike the developed world, Latin America has no "safety net" to stop its jobless from falling into poverty.

Anthony Solomon, president of the Federal Reserve Bank of New York, had better news June 14, though many participants in the seminar thought his projections overly optimistic. Solomon estimated that real growth (growth discounted for inflation) would be no worse than 4 percent annually by 1985, and that this would be possible even if Latin American governments fail to keep public-sector deficits below 7 percent of their gross domestic product (GDP). It would nevertheless require that they maintain their currencies at market levels. If, on the other hand, public-sector deficits *are* kept below 7 percent of GDP and currencies *are not* propped up artificially, then Latin America would get new direct investment and financing, both of which could increase growth rates. Commercial banks alone, Solomon predicted, would increase their loans by 5 percent and go along with refinancing scheduled amortization payments. As private spending and export earnings began to revive, real growth might come in at 6 percent by 1985. Solomon thus rejected calls for either debt forgiveness or stricter austerity measures. The first, he said, would be counterproductive, the second would put too great a burden on Latin American recovery efforts.

Karlos H. Rischbieter, president of Volvo do Brasil, was the featured speaker in the final session of 1983. Departing quickly from his chosen topic, "Free Trade, Protectionism, and Export Promotion: The Future of Latin American Trade," because he thought the situation in Brazil of greater moment, Rischbieter asserted "the carnival is over." Riots in Rio de Janeiro and São Paulo, rising unemployment, declining per-capita income, and 200 percent inflation all confirm that, he said. But he thought a military coup there unlikely, remaining confident that the *abertura* ("opening") process, which allows for increasing political participation, will remain strong. After all, he said, "The political parties are made up of people with a lot of common sense." For all of Latin America, Rischbieter called for a "New Deal," hinting that the world's developed nations should share the burden of Latin America's debt repayment.

The Inter-American Economic Issues Seminar resumes this month with Guest Scholar Carlos Tello discussing "Growth and Crisis in the Mexican Economy." As head of Mexico's central bank, Tello was responsible for nationalizing his nation's banking system in September 1982, and he is the coauthor of a controversial book on Mexico's future development plans. The following session is planned for Miami, where Robert Hormats, former assistant secretary of state for economic and business affairs and now vice president of the New York investment firm Goldman, Sachs & Co., will discuss the work of a group he recently cochaired, the Commission on Western Hemisphere Foreign Debt and Public Policy.

THE TREATY OF PARIS 200 YEARS LATER

On January 26–27, The Wilson Center and the Folger Institute's new Center for the History of British Political Thought marked the 200th anniversary of the treaty ending the American Revolution with a symposium on "The Treaty of Paris in a Changing States System." The central question for participants: How did the American Revolution change relations among nations between the early 1780s and the outbreak of the Napoleonic Wars?

Changes were subtle, most agreed, but geographically broad. The 1783 Treaty affected British conceptions of government and empire; the foundations of Canadian nationality and Canadian conceptions of the appropriate role of government; the place of Spanish colonies in the Western Hemisphere and Spanish conceptions of governance in Florida and the Caribbean; and Anglo-Irish relations. New details were contributed on each of these themes, but the most important contribution of the conference—and the volume to follow later this year—was their conjunction in a reasonably coherent approach.

Among the most surprising long-term effects of the American Revolution, participants discovered, was a resurgence of Anglo-American trade. Accustomed to British goods, Americans bought them in even greater amounts after the war, much to the chagrin of the French, who saw a new market opening up but were unable to capitalize on it by producing enough high-quality goods cheaply.

Marcus Cunliffe, University Professor at George Washington University and a former fellow, gave the symposium's keynote address at the British Embassy. His presentation, "Cultural Patrimony," was followed by a reception hosted by Sir Oliver Wright, British ambassador to the United States. Americans after the Revolution, according to Cunliffe, were quick to point out that they no longer spoke "English" but rather "American," an assertion, he said, that reflects the tension between demonstrable cultural continuity on the one hand and a desire for cultural disjunction and distinctiveness on the other. In broader matters of government and national identity—as with language—the Treaty of Paris marked less of a break with the past than either contemporaries expected or revolutionary mythology might suggest.

NEWS OF FORMER FELLOWS AND GUEST SCHOLARS

Bronislaw Geremek (January 1978–December 1978) is once again teaching at the Polish Academy of Sciences in Warsaw. The former fellow and adviser to Solidarity's National Consultative Commission was released from prison in late July 1983, shortly after martial law was lifted. But the Polish authorities continue a policy of harassing dissidents. This January, Geremek and former fellow Tadeusz Kowalik (April 1981–April 1983), an economist and former Solidarity adviser, were "detained" following separate raids on their homes, and Geremek was held a second time while on his way to review a doctoral candidate in Wrocław, about 200 miles southeast of his home.

Most would call it quits after 21 years as editor and publisher of the *Oberlin News-Tribune*, 10 as an Ohio state senator, and 16 in the U.S. Congress. Not former fellow Charles Mosher (September 1979–September 1980). He earned his master of government degree at Oberlin College May 30, 1983, becoming the oldest to earn a degree in the 150-year history of the college. "Of all my 77 years, I doubt that any year has been happier or more intellectually exciting than this year at Oberlin," Mosher said, adding, "It has been a way of discovering myself." He's

also discovered there's life after Washington. Returning to Oberlin for good in 1982, Mosher and his wife are enjoying "a much more busy, intimate, and interesting life than we would have had in retirement in Washington. We feel more in touch with what's going on."

Jorge A. Sabato (April 1979–July 1979) died in Buenos Aires in December 1983 after a long illness. A colleague of Rama's in the Latin American Program, Sabato had focused on nuclear proliferation in the Third World during his guest scholarship. It was a subject he knew well, having played a key role in starting Argentina's nuclear program in the 1950s.

Angel A. Rama (June 1979–May 1980) and his wife, Marta Traba, died in Madrid November 26 in the crash of a Colombian airliner. Born in Uruguay and, since 1972, a citizen of Venezuela, Rama had taught Latin American literature at the University of Maryland since leaving the Center, where he studied the evolution of Latin American culture, 1750–1830. Contributions to a scholarship fund in his name may be sent to Saul Sosnowski, Department of Spanish and Portuguese, University of Maryland, College Park, MD 20742.

STAFF CHANGES

Herbert F. Ellison came east to lead the Kennan Institute in July 1983, replacing John Glad, who resumed teaching Russian and comparative literature at the University of Maryland College Park after a year as program secretary. A native Oregonian, Ellison is the former chairman of the Russian and East European studies department at the University of Washington and editor of *Sino-Soviet Conflict: A Global Perspective and Soviet Policy Toward Western Europe*. His new research associate is Bradford P. Johnson, a 1977 Middlebury graduate who received his M.A. in Russian language and literature from U Mass-Amherst in 1981 and is currently in his final year at Antioch Law School.

Abraham F. Lowenthal, on leave from his post as secretary of the Latin American Program since March 1983, resigned January 1 to become professor of international relations at the University of Southern California. "His energy, imagination, and dedication in building the Latin American Program and making it an integral part of the Center over the last seven years," said Center Director James H. Billington, "deserve the highest praise." Louis W. Goodman continues as acting program secretary.

In the International Security Studies Program, Robert S. Litwak became research associate in May 1983 following postdoctoral research at the Center for International Affairs at Harvard. He and Jed Snyder are administering the program while Secretary Samuel F. Wells is on sabbatical in Paris, researching Franco-American relations under Mitterrand and Reagan at the French Institute of International Relations (IFRI). Retired general Andrew Goodpaster, a former fellow and supreme allied commander in Europe, is currently the program's distinguished senior scholar. He will be awarded the Medal of Freedom, the nation's highest civilian honor, by President Reagan at the White House March 26.

Timothy James joined the *Quarterly* staff as a senior editor February 1. A former *Time* senior editor, he'll be editing a number of the magazine's topical "clusters" of articles.



GETTING STARTED ON STALIN

Robert C. Tucker, IBM Professor of International Studies at Princeton and a Wilson Center fellow from September 1983 to January 1984, is the author of *Stalin as Revolutionary, 1879-1929: A Study in History and Personality*, the first volume in a projected trilogy on the Soviet dictator. Here, in an adaptation of a paper he wrote for a University of North Carolina conference on "Psychology and the Biographer," and gave recently as part of the Kennan Institute's regular Wednesday noon-discussion series, he tells of how Stalin came to be his subject:

The old maxim *cherchez la femme* can do duty in this case, where the question is why someone who never intended to be a biographer became a sort of one, although reluctantly and after long delay. The *femme* was Karen Horney, the revisionist of psychoanalytic thought, whose *Neurosis and Human Growth* was published in 1950 when I was in Moscow directing a bureau that translated selections from leading Soviet newspapers and journals for the American, British, and Canadian embassies.

I ordered a copy via the diplomatic pouch and after reading and rereading it, became fascinated with Horney's argument that a person who experiences "basic anxiety" in early life may seek and find a rock of inner security by forming an idealized image of himself. If the anxiety-causing conditions do not change, the child moves from self-idealizing to the adoption of the idealized image as an idealized self, the imagined real identity. The energies then available for growth are invested in the quest to prove the idealized self in action, what Horney calls the "search for glory."

Because the idealized self is absolute—free of the limitations that go with being human—it can't be fully actualized. The individual begins to berate and then condemn the mere human he proves to be in practice. The drive to enact the idealized self becomes compulsive. To avoid the extreme pain of anxiety and self-condemnation that are the price of failure, the by-now inwardly conflicted individual develops a system of unconscious defenses, vindictively projecting his self-hatred onto others who somehow fail to see him as the idealized self he takes himself to be.

The Cold War raged fiercely then, and what would one day be called the "cult of personality"—with Stalin as the centerpiece—was at its zenith. Though Stalin was a recluse who hardly ever appeared in public, a heroic portrait of him, usually in generalissimo's uniform, appeared almost daily on the newspapers' front pages. He had become an object of reverential tribute.

I, for my part, was serving an indefinite sentence in Moscow,

so to speak, because my Russian wife, Eugenia, whom I had married in 1946, was unable to get an exit visa to accompany me home. One Saturday afternoon in 1951, after browsing in the Academy of Sciences bookstore, I was walking down Gorky Street toward the U.S. Embassy on Mokhovaya. In full view below was Red Square, to its right, the Kremlin. It may have crossed my mind that Stalin was at work there. Suddenly I was struck by a thought that took the form of a question: What if the idealized image of Stalin appearing in the party-supervised Soviet press was an idealized self in Horney's sense? If so, Stalin must be the kind of neurotic personality she portrayed, except that he possessed an unprecedented plenitude of political power. And in that case, the cult of personality must reflect Stalin's own monstrously inflated vision of himself as the greatest genius of Russian and world history. Spilling out his innermost thoughts about himself in millions of copies of Russian newspapers and journals, Stalin must be the most self-revealed disturbed person of all time. There would be no need to get him onto the couch—one could do it by reading *Pravda* while consulting Horney. So I began to do just that, and in the process grew more and more convinced of my hypothesis.

My theory found little favor with the few acquaintances in the Anglo-American colony to whom I confided it. They dismissed it as improbable or pooh-poohed it. "Stalin doesn't give a hoot for the cult," one commented, "he simply countenances it as a useful propaganda tool." After a few such exchanges, I gave up propagating my idea—but not the idea.

Home for a short leave in the summer of 1952, I was told by a Voice of America consultant that an unknown man had contacted the State Department and suggested that much of Russia's enigmatic Cold War behavior might be attributable to Stalin's paranoia. "The department didn't know how to get rid of him and sent him to me," my colleague said wryly, "and I got rid of him." Knowing little about paranoia but realizing that the unknown man and I were on the same general intellectual wavelength, I experienced a sinking feeling. That man and I were crackpots!

Back in Moscow in late 1952 and the fear-filled early weeks of 1953, when the Soviet press was printing ominous stories about Jewish "doctor-murderers" who were alleged to have conspired with the Anglo-American intelligence services to shorten the lives of Soviet leaders. I was coming to the conclusion that if Stalin, then in his 70s, were to die, all sorts of changes might occur rather suddenly in the Soviet regime's conduct. If it were acting out a neurotic personality's needs in politics, it would no longer be compelled to do so once he was dead.

Maybe the regime would call off the preparations for the trial of the "doctor-murderers." Maybe then, in smaller ways, it would stop acting against its own interests. (One of Karen Horney's observations was that every neurotic tends to act in ways contrary to his own best interests.) In its denial of exit visas to the Russian wives of foreign nationals, for example—a matter of particular interest to me, and five other Americans in Moscow—why would the Soviet government allow such a trivial matter to fester in relations with our own and other foreign governments?

A Horneyan explanation occurred to me. If the Stalin cult was an institutionalization of an idealized self, then the idealizing must extend to Stalin's realm, save insofar as evil conspirators sought to spoil the picture. Any demeaning of the Soviet state over which the idealized Stalin presided would, by implication, be a demeaning of him as the leader he took himself to be. And any request to leave Russia to live abroad would be an implicit derogation of his, Stalin's, state. I explained this line of thought to Eugenia one night when we went out for a walk, and I said: "If Stalin dies, I bet they'll let you go." Even she was discouraging. "Georgians are long-lived," she replied. "He'll probably outlast us both."

On March 4, 1953 I arrived at the translation service's offices at the normal time. The papers were late that morning—usually a sign of an especially important item of news coming up. A few minutes later the papers came. Below the front-page announcement COMRADE STALIN IS GRAVELY ILL were details about his stroke. I knew Stalin was dead, or as good as dead, but what I mainly want to record is that never in my life have I experienced such intense elation as I did at that moment. It was compounded of joy that one of history's evil-doers was meeting his end, hope that this might mean early release for Eugenia, and hence for me from a stay that had lengthened into nearly nine years, and excitement that my hypothesis was going to be tested. Would Russia after Stalin be a changed Russia in the ways I'd expected? It did not take long for the answer to come.

For about two weeks, Russia's public life focused on the ceremonial sendoff. There was a final burst of the Stalin cult in the press encomia. That ended, a subtle but deep change came over Soviet life. The terror-tinged atmosphere of the first months of the year evaporated like mist in the morning sun. The threatened purge never took place. Indeed, the Ministry of Internal Affairs, in an implicit indictment of Stalin, issued a lengthy public statement in mid-April denouncing the doctors' affair as a frame-up (it did not say by whom) and revealing "inadmissible methods" (meaning torture) were used to extract from the hapless doctor-victims confessions of guilt for nonexistent crimes. By then Stalin's name was hardly to be seen in the Soviet press—the cult was finally a thing of the past.

The change was felt no less quickly in Soviet conduct of foreign relations. Steps began to be taken toward winding up the Cold War, notably by reviving talks that soon led to an armistice in Korea on terms that the Communist side had rejected so long as Stalin lived. With Charles Bohlen's arrival in May as U.S. ambassador, it was decided to raise the question of the Russian wives of Americans as a test of the new atmosphere. Molotov

now headed the Foreign Ministry. Instead of angrily refusing to consider the question—like his predecessor—when Bohlen raised it, he calmly said he would look into it. Three weeks later, the visa that had been denied for seven years was granted, and before June was out Eugenia and I were on our way west.

Back in the United States, I took a job with the Social Science Division of the Rand Corporation, which wanted me to write interpretive studies of Soviet policy after Stalin. To clarify what was new, I had to go into Stalin's influence on earlier policies, and this inevitably led me into psychological analysis. My boss, Hans Speier, was generally supportive so long as I devoted primary attention to developments after Stalin, but my thesis—that a really profound change had occurred with Stalin's death because of the psychological factor at work in the politics pursued while he lived—met with resistance. I was advised not to focus on history. After all, the little that had changed internationally could be explained simply by pressures on the Soviet regime or by the more "flexible" politics of a new, younger Soviet leadership.

Another greater evidential problem confronted me. How did I know that Stalin was really a neurotic personality? We knew so little of the man himself. In public, he had seemed modest, unassuming. To interpret his psychological makeup through the public Stalin cult was, to say the least, questionable, because the evidential value of this material turned on its meaning to him, and that we didn't know. Then came a windfall—Nikita Khrushchev's secret report about Stalin to the 20th Party Congress, a copy of which found its way into American hands and was published in the *New York Times* in June 1956. Offering abundant first-hand testimony that Stalin was a man of colossal grandiosity along with a profound insecurity that caused him to seek constant affirmation of his imagined greatness, Khrushchev portrayed a neurotic personality precisely in Horney's sense. Self-idealizing, insatiably hungry for the self-glorification provided by the cult, Stalin was easily aroused to vindictive hostility by whatever appeared to derogate from his inflated vision of himself as a leader and teacher of genius. His aggressions, typically expressed in purges, were—it followed from Khrushchev's revelations—the other side of his self-glorification.

My hypothesis now confirmed to my own satisfaction, the task was to get on with the study. I left Rand in 1958 and became a teacher of Soviet politics, first at Indiana University and later at Princeton. But not until 1965, when I took a year of academic leave at the Center for Advanced Study in the Behavioral Sciences in Stanford, did I really begin work on Stalin. Unsure of how to carry out the task, I aimed to write a political scientist's tract on dictatorship from a psychological perspective, not a Stalin biography.

The idea came of constructing the study as a scholarly wadunit, and I wrote three long chapters. Starting with Stalin's ascension to supreme leadership in 1929, the first showed how he made himself an autocrat by his terroristic purges of the 1930s. To prove that he was not yet a dictator in 1929, I argued in the second that Lenin could lead the Bolsheviks without being dictatorial because he had acquired such charismatic authority in

their eyes. Only toward the end, where I examined why the Bolshevik regime became autocratic under Stalin, did I discuss Stalin's early life as a revolutionary in order to show how the idealized image that formed the cult's centerpiece was touched up and in places falsified. What was to have been a personality study in its fundamental character was shaping up as something else. Revision was in order as I now saw that chronology could not be cavalierly disregarded. At the very least, Stalin's early life and early revolutionary career would have to be treated early on in the book. Biography as a genre had thus presented itself to me, and I could no longer instinctively shrink from it.

I began again, letting my early chapter on Lenin as charismatic leader lead me naturally into the pathways of biography. The question became, How did a young Georgian of lowly origin named Iosif Djughashvili become a follower of Lenin early in the century? There was no way to answer this question with generalities; an interpretation of my subject as an individual young person became providentially unavoidable. Nor would it help to describe Horney's profile for the "arrogant-vindictive" neurotic personality type and try to show that Djughashvili was a case in point. True, his wretched early family life, the brutal beatings inflicted on his mother and on him by his drunken father, would easily have produced the basic anxiety that forms psychological soil in which a neurosis can grow. Biographical interpretation could and should take this into account. Further, what was known of Djughashvili's boyhood showed a definite streak of self-idealizing, which continued during his years in the Tiflis theological seminary when he entered the local revolutionary underground, and subsequently as well.

Instead of dealing in such abstract categories from a book of psychology, however, I was now using that book as guidance in a *biographer's* effort to portray his subject as an individual. More work brought to light Djughashvili's discovery in the far-off figure of the party's leader, Lenin, a heroic identity figure (a mentor) who inspired him to adopt a Lenin-like revolutionary pseudonym, Stalin, or "man of steel," as the symbol of his idealized revolutionary self.

The Lenin identification carried momentous implications for an understanding of Djughashvili's personality, among them the drive to one day match or outdo his identity figure in revolutionary accomplishment. Earlier on, the Lenin identification resulted in the russification of Djughashvili's national self-consciousness. Since the identity figure was a Russian revolutionist, *he* must be Russian too, and yet the Russian revolutionary *persona* that he thus fashioned for himself as *Stalin* was inevitably going to be in conflict all his life with his ineradicably Georgian empirical self as Djughashvili. This disparity, with political consequences both large and small, caused an inner conflict of the sort Horney had found to be one of the normal vicissitudes of neurotic life experience.

Now one could begin to see how Stalin would necessarily come into murderous conflict with many fellow Old Bolsheviks and others who were aware not simply of his original national identity but, more important, of the spotted actuality of his character and his revolutionary past. One could see how he was

going to be driven to have history rewritten to the specifications of his idealized Stalin self, for which purpose (among others) tyrannical power was a prerequisite.

So this is how a work took shape that might be described as biography-centered history. It never became—fortunately—the political-science tract it started out to be, nor did it become a conventional piece of life writing. It became a study in history and personality devoted to showing how history shaped an individual who, in turn, greatly influenced history itself. And this is how its author became—in spite of himself—a sort of biographer.

HOPES AND FEARS FOR U.S.-GERMAN RELATIONS

Despite mass protests in West Germany over the scheduled deployment there in December 1983 of 572 new U.S. Pershing II and cruise missiles, U.S.-German relations and German ties to NATO remain strong. That's the predominant view of some 40 German and American historians, political scientists, economists, and policymakers who took part September 21-23 in a 2½-day Wilson Center conference on "German-American Relations and the Role of the Federal Republic in Europe and the World."

The United States must remember, however, that Germany no longer remains "the *Musterknecht* ('model pupil') of the alliance," said Columbia University historian Fritz Stern in the concluding paper of a conference volume to be published later in 1984—and most participants agreed with Stern's assessment. Germans, according to Stern, "grabbed at what they took to be the American essence" in the post-World War II years of the Marshall Plan. It was then a natural reaction, he said, because "American power shone at its brightest and German impotence was compounded by moral bankruptcy." Today, he observed, they "have the special experience of the disappointed lover, of a people who succumbed too completely to an earlier American dream."

The disappointment had not yet set in when John F. Kennedy's "Ich bin ein Berliner" had "so electrifying an effect" in June 1963, Stern said, "because it reciprocated the tacit identification of so many Germans with America." Within a decade, feelings against the Vietnam War ran high; and anti-American sentiment has grown since as U.S. foreign policy in general is increasingly seen by Germans as heavy-handed. U.S. economic policy as well has lately come under fire; according to conference organizer James Cooney of the Kennedy School of Government at Harvard, the discussion of economic issues following papers by Sidney Jones, now undersecretary of commerce for economic affairs, and Reimut Jochimsen, Minister for Economics in North Rhine-Westphalia, "was the most sobering of the conference because fundamental differences are visible and likely to remain."

Deployment of new U.S. missiles on German soil in late 1983, Stern asserted, "dramatized the deepest issue. It suddenly made Germans realize their dependency, the limits of their autonomy, the extent of their vulnerability. It also made them feel a certain chilly isolation: many Germans feared that the new missiles added to Germany's insecurity rather than security." And the agitation that preceded deployment was to Stern "one of those dramatic moments in the life of a nation that jolts people and makes them understand that new realities had outdated their earlier perceptions."

Most conference participants agreed with Stanford historian Gordon Craig that the current agitation is hardly a display of old-fashioned nationalist sentiment, as a few Americans would have

it. Germany, he pointed out, is no more likely to find refuge in pre-1945 authoritarianism than is America to revert to isolationism.

Richard Loewenthal, professor emeritus at the Free University of Berlin, also found that 1945 marked a radical break with the past. Any lingering doubts about Germany being a *Zwischenkultur* ("in-between culture") "with a strongly anti-democratic and anti-liberal bias," he said, were quickly dispelled in the final days of World War II when millions of Germans emigrated from the East, putting their "last hope in that 'Western humanity' they had been told for so many years to despise."

Since then, according to Loewenthal, a German democracy short on tradition has stood up well to attacks from both the neo-Nazi right and the Communist left. Its stability was reinforced in the '70s, he added, when Germans began to "democratize" educational institutions, to confront the problems of decelerating economic growth, and to protect the environment in an industrial society. The peace movement, he suggested, is an outgrowth of this post-1945 tradition, not of an earlier one.

Research data for 1950-79 bears this out, said Hans-Peter Schwarz, a former Wilson Center fellow who now directs the Research Institute for Political Science and European Issues at the University of Cologne. Schwarz found that a West German "silent majority" rejects both antidemocratic political tendencies and isolation from Western allies. Pacifism and "anti-Western unilateralism," he said, are embraced only by a university-educated, well-organized few. Schwarz discovered that even most members of the peace movement are pro-NATO.

Putting aside the notion that nationalism is currently at play in West Germany after several participants noted further that contemporary unrest isn't experienced by Germany alone, the conference debated long and hard whether the peace movement would prove enduring. A coalition of the Green Party, many Socialists, and a large number of professionals, the peace movement has been given new legitimacy by both the Protestant and Catholic churches in Germany. And they are likely, some thought, to step up the pressure against nuclear weapons, as they have on such issues as pacifism, racism, South Africa, and revolution in Central America.

Without being explicit, the prominent German theologian Juergen Moltmann suggested that the two contradictions of nuclear "security" and American "idealism" are simply too great to go unresolved. In the first case, he said, Christian religion—based on faith and hope—offers the only alternative to "civil religion"—based on an ever-increasing anxiety produced by the arms race. In the second, he warned that the 200-year-old American dream would become a "nightmare for other nations if it is turned into the ideology of American hegemony, and if it is not extended to all nations as a *humane dream*."

Richard Loewenthal, unlike many conference participants, felt that the contemporary peace movement "constitutes the first substantial threat ever" to Germany's ties with NATO and the United States. This is certainly not a product of Green Party strength, he added, noting that the Greens had limited success winning Bundestag seats; that their message is an anarchic and

incoherent mix of local environmental initiative and "irrational anti-industrialism"; and that their claim to fame is a violent local protest against extending a runway at the Frankfurt airport, where they tried to help inhabitants save a wooded recreational area.

The peace movement, according to Loewenthal, gets its strength rather from the "stark fear" of a nuclear war in which Germany would probably be destroyed first. It is this fear, he said, that makes the Greens more than a "fringe phenomenon of passing importance." It is a fear, he concluded, fueled by recent Reagan-administration rhetoric charging the Soviets with being the "source of all evil"—a remark many conference participants considered damaging to U.S.-German ties—and holding that the United States might win a limited nuclear war.

Josef Joffe, however, thought it unlikely that the peace movement would retain its fervor after the deployment of U.S. intermediate-range nuclear missiles in December 1983—and he has been right so far in 1984. Recalling how Konrad Adenauer's Christian Democratic Union (CDU) decisively won reelection in 1958 six months after 52 percent of all West Germans were set to strike against the CDU decision to permit U.S. tactical weapons to be stationed on German soil, Joffe said: "Every generation, it seems, must come to grips with the terrifying implications of nuclear weapons on its own."

NATO membership to the vast majority of West Germans is well worth the price, according to Joffe, a former Wilson Center fellow now with the Carnegie Endowment for International Peace. Because Germans have been "net importers of security" they could "enjoy the comforts of a cocooned civilian power while the United States, France, and England squandered their blood and treasure on military intervention around the globe." Further, nonautonomy has helped them develop democratically.

Part of that price is continued uncertainty about German security, Joffe admitted. Germans are trapped not only between the United States and the Soviet Union but also between the equally horrible possibilities that Washington *will not* defend them if attacked—now that Moscow can retaliate against American cities—or that it *will*, confining the conflict to Germany.

Reunification with East Germany was sacrificed for NATO membership, Joffe also noted. Here in the United States, according to Fritz Stern, "We did not realize that once the Federal Republic had become the most powerful country in Europe west of the U.S.S.R., that once it had become somewhat disenfranchised with the dream of Europe or the model of America, it would recall Germany's historic unity, it would remember that it uniquely is a powerful state with the deepest national grievance." Though some participants in the conference acknowledged the pervasiveness of the "German question," none held out hope for reunification.

A number of conference participants noted that a greater degree of autonomy is essential for West Germany—that the price of NATO membership, in effect, needs to be reduced. Kurt Biedenkopf, for example, a member of the Praesidium of the CDU, argued that Germany's special relationship with the United States must be maintained because Berlin's future and German

reunification ultimately depend on détente. But, he said, Germany must still seek a political identity within the European community, and an integrated Western Europe must in turn define an independent position between the superpowers. Biedenkopf called for critical reconsideration of both the costs and the strategic and tactical assumptions of NATO policy.

Former Wilson Center fellow Ernest May, Charles Warren Professor of History at Harvard, called NATO "a somewhat hurried response to what Washington and other Western capitals saw as menacing conduct by the Russians" that is today outdated: the Soviets remain dangerous but haven't tried to conquer Western Europe; Hitler's Germany has not been reborn; American isolationism (the return of which American policymakers sought to avoid) is a thing of the past. In addition, May pointed out, "The presence in the Republic of 5½ American divisions, equipped with several thousand nuclear weapons, is not in the 1980s an ideal, or even a very logical, means of assuring national security." But May predicted little change. Because the alternatives are "infeasible or simply too dangerous," the bureaucracies that administer NATO policy too entrenched, May suspected the current alliance arrangements will prevail at least through the end of the century.

Concluding speaker and former secretary of defense James Schlesinger noted that "American support for Europe . . . rests on no sophisticated appreciation of national interests or the balance of power, but rather a simple, yet invaluable belief that the European democracies are populated by good people that deserve our protection." Political cohesion among them, Schlesinger argued, is "our first priority."

To avoid reliance on the threat of nuclear retaliation in the event of a conventional assault, said Schlesinger, NATO needs a bigger army. But its European members have always found that too costly—relative to nuclear weapons—and refused to go along. "The ultimate effect," he said, "is that the United States has for a quarter century taken the problem of European security far more seriously than have the Europeans themselves."

Schlesinger prodded the United States to learn not to "manage" the Alliance, but to let Europeans set the tone for relations with the East, provided NATO security isn't undermined. The United States must also tolerate greater political diversity. Said Schlesinger: If our allies don't support us on Central America, we must resist the feeling that "somehow the Alliance has become meaningless." Germans, for their part, must put aside their "irritation about the American role elsewhere in the world" to sustain an American presence that is "indispensable for the foreseeable future."

The Center is now producing a weekly radio show called "DIALOGUE" involving interviews and discussions with fellows and participants in Center meetings. These programs are distributed nationwide over satellite to 260 national public radio stations that have satellite capability and to 120 other, smaller stations through mailing out of tapes. Radio programming will cost \$85,000 in its initial year. This money has come entirely from foundation grants.

This initial work in broadening our outreach efforts is being funded by special foundation grants for this purpose, but we anticipate that sustained increased funding will be required if the Center is to fulfill its mandate on a nationwide basis. It is for this reason, primarily, that the Center's Board of Trustees authorized an endowment campaign.

Q: The Center's Board of Trustees has authorized an endowment drive. How will this drive take place? Is legislation needed to authorize this activity?

A: The Center's endowment drive is being conducted under the overall guidance and direction of the Finance Committee of the Board of Trustees. Individual Board members are asked to make contacts with potential donors, as are members of the Wilson Council, the Center's advisory body. These contacts are then followed up by the Director and other staff members.

In regard to the question whether legislation is needed to authorize this activity, the Smithsonian's General Counsel has stated (letter attached) that, in his opinion, the Center's Board has the authority to conduct an endowment drive and that, furthermore, no special legislative authorization would be needed for a federal appropriation to the Wilson Center for endowment purposes.

February 16, 1984

Mr. James H. Billington
Director
Woodrow Wilson International
Center for Scholars
Smithsonian Institution
Washington, D. C. 20560

Dear Mr. Billington:

Your staff has approached me for an opinion on whether a federal appropriation to the Wilson Center for endowment purposes would need to receive special legislative authorization.

After studying the Center's charter and the language in Section 801 of Title 20 of the United States Code, I believe that such an authorization is not necessary. Section 801 of Title 20 states, "There are hereby authorized to be appropriated to the Board such funds as may be necessary to carry out the purposes of this subchapter . . ." This would appear to be sufficient authority for the appropriation of an endowment fund. Such an appropriation, I believe, would not be subject to a point of order.

If the question were raised as to the authority of the Board of the Wilson Center to have an endowment in the first place, my opinion is that the Board of Trustees clearly has this authority as part of the "necessary and proper powers" of a trustee provided in Section 80g of Title 20, and

Section 80g(a)(2) specifically recognizes the power of the Board to accept money for the benefit of the Center.

With best wishes,

Sincerely yours,

Peter G. Powers
Peter G. Powers
General Counsel

Q: The Center's programs seem to be run very effectively at the present time. How will endowments enhance the planning and functioning of the programs?

A: Assured long-term funding by means of an endowment would permit the Center to fulfill that aspect of its mission which has been given least sustained attention during the Center's first 14 years. Quality control of fellowship selection has been established. Meetings and conferences are being better planned and more carefully coordinated. We need now to make available to a broader national public in a far more systematic and comprehensive way than is currently possible the results of research and conferences carried on at the Center. Under the present arrangement, the Director and other officers must spend a great part of their time raising money for particular projects and meetings rather than devoting energies to the long-term development of the Center's intellectual agenda.

Only assured financial support, such as from an endowment, will permit the kind of long-term planning that is required to organize major international conferences and appropriate public outreach related to them. The availability of such funds would provide the margin for excellence to ensure the sustained intellectual quality of these endeavors and to ensure that the Center not become beholden to the parochial interests of short-term funding sources.

It is true that the Center has been able to undertake an ambitious program of outreach using multiyear grants from foundations, but these grants are by their very nature one-of-a-kind, designed for innovation, to help the Center get started in these activities--not to maintain them on a long-term basis. For that, endowment is essential.

Q: Would endowment monies be used to support any functions not currently authorized or funded through annual appropriations?

A: With the guidance of the Congress, the Center has developed a rationale through the years for the use of the public and private funds at its disposal. Appropriated funds are used largely to cover the costs of fellowship stipends and to pay the central administrative costs of the Center. Private funds pay for the bulk of the Center's outreach activities, its meetings and publications. The Center must now raise approximately two million dollars a year on the private side, and it proposes to secure an endowment large enough to provide an annual income equivalent to half of this amount. Thus, if our endowment drive were completed successfully, we would still need to raise an additional million dollars every year from short-term sources.

The functions to be covered by endowment (meetings, outreach, publications) are authorized by the Center's founding legislation (P.L. 90-637) but are, for the most part, not now funded through annual appropriation.

Q: The Committee has no specific endowment proposal to act upon. Does the Center have such a proposal? If so, please provide a copy. How much do you hope to raise? What federal participation do you seek in such an endowment program?

A: The Center has prepared draft language for a federal appropriation for endowment purposes and attaches a copy of this proposed language.

It is proposed that the Congress appropriate \$3,000,000 to the Center, to remain available until September 30, 1987, with such funds becoming available only to the extent that they are matched by three private dollars for every federal dollar. Thus, a fully successful endowment campaign would, over the course of the next three years, produce a total endowment of 12 million dollars, three million of which would come from federal appropriation.

SMITHSONIAN INSTITUTION

WOODROW WILSON INTERNATIONAL CENTER FOR SCHOLARS

For the purpose of establishing an endowment challenge fund for the Woodrow Wilson International Center for Scholars, \$3,000,000, to remain available until September 30, 1987, provided that such funds shall become available only to the extent matched on a three-to-one basis by private funds obtained by the Center through new or increased donations. The endowment funds may be invested in securities approved by the Board of Trustees. The income from the endowment may be used to support programs of the Center deemed appropriate by the Trustees and by the Director of the Center.

Q: You anticipate income from the Kennan Institute to increase from \$69,055 in 1983 to \$140,323 in 1984 and 1985. How will the income be increased?

A: The income figure for the Kennan Institute in 1983 (\$69,055) is an actual figure, whereas the income figure for 1984 (\$140,323) is a proposed one. It states the amount that is needed to be raised if the 1984 program for the Kennan Institute as indicated on p. 14 of the Budget Justifications is to take place. If anticipated income does not come in, programs must cut back their activities accordingly.

Q: Income from the American Society and Politics program is projected to increase from \$19,623 to \$118,013 in 1984 and 1985. Please explain this program and the reason for the expected increase in income.

A: This program seeks to develop new perspectives on the evolution of modern American society. The increased income figures for 1984 and 1985 indicate the desired level of activity for these

two years and the money that must be raised if this level is to be reached. The figures, in other words, are goals to strive for, not concrete amounts that are either available or assured.

Q: What is the Center's present space situation? What plans do you have to meet future space needs?

A: In a word, we are cramped. We have stated repeatedly that we do not plan to grow very much beyond our present size because we recognize that, beyond a certain number of fellows, the Center would break up into departments, as in a university, and we would then lose the collegiality that is our hallmark.

But to do well the things we have set ourselves to do, such as greater outreach through publication and radio to the nation, we very much need some increment of space. We have discussed these needs with the Smithsonian and hope that it will be possible for the Smithsonian to assign some additional footage to the Center when the renovation is complete in the adjacent Arts and Industries building. We are also planning to submit a request through OMB and the Congress for FY 86 for restoring a tower adjacent to the Center's library and thereby gaining three additional rooms.

Q: Is there a possibility that the Wilson Center will move to the Smithsonian's new International Center?

A: The Wilson Center will not move into the Smithsonian's new International Center. We would, however, hope to work in close coordination with the new International Center. We feel, for example, that we can put our accumulated experience with international conferences to good use in collaboration with programs planned for the new Center. We hope to use the conference and meeting space in the new International Center and perhaps to work out modest additional office space.

Q: How many square feet do you currently occupy and what are the projections of future requirements?

A: We currently occupy 21,000 square feet in the Smithsonian castle. The total of all future space requirements would not go beyond an additional 10,000 to 12,000 square feet.

Q: Page 8 of your justification provides the general administration account by object class. Is the FY 1983 column actual or planned obligations? If planned, please provide actual obligations for FY 1983.

A: The figures on p. 8 were estimates only. Actual obligations for FY 1983 are as follows:

Personnel costs	\$325,231.63
Travel	6,032.31
Rental of office machines	33,885.00
Duplicating	27,518.89
Printing	2,682.67
Computer services	8,000.02
Communications	32,855.48
Shipping	2,591.91
Miscellaneous	48,069.05
Supplies	27,057.06
Equipment	15,864.78
Total	\$529,788.80

COMMISSION OF FINE ARTS

[CLERK'S NOTE.—A formal hearing was not held on the fiscal year 1985 budget request for the Commission of Fine Arts. The following statement was submitted by J. Carter Brown, Chairman of the Commission of Fine Arts.]

[The statement follows:]

The Commission of Fine Arts is requesting an appropriation of \$380,000 for fiscal year 1985, an increase of \$6,000 over the fiscal year 1985 base. The request is \$37,000 above funds actually appropriated for fiscal year 1984 to date which includes a \$3,000 pay supplemental. Approximately \$25,000 of this increase comes from GSA's higher rental rate for our government-owned office space. The balance involves modest increases in operation and printing expenses. This continues to be a no-frills budget, but can allow the Commission to meet its obligations efficiently. The staff and I are here to answer any questions you may have about our request or our activities. Let me briefly highlight some of the things we have been involved in since we last appeared and point out some areas of concern.

There are still a number of details to be settled on the Vietnam Veterans Memorial. We continue to work with the Vietnam Veterans Memorial Fund and the National Park Service monitoring and advising on the development of landscape elements, better pedestrian circulation, and the evolution of the sculpture planned for the site. The great number of night visitors to the memorial has required the introduction of lighting; the Commission has reviewed these plans and was very pleased with the results.

In our role as advisors on memorials we anticipate involvement in the proposed Korean Veterans Memorial in the event Congress supports the project. We also understand that additional planning money is to be spent on the FDR Memorial, and we will be ready to assist the National Park Service in the design details that are still to be approved. The Navy Memorial is, of course, a major part of Pennsylvania Avenue's re-development and still very much an ongoing project, just having been again before the Commission last week.

While discussing the monumental core of the capital, I would like to mention a number of other projects the Commission considered for the Mall area. We have reviewed designs for development of the Washington Monument grounds including regrading the hill, the addition of new walks, the removal of the 16th Street axis parking lot, and designs for the German-American Friendship Garden. The latter is located on the periphery of the grounds along Constitution Avenue between 15th and 17th Streets.

The National Park Service has also sought the Commission's advice on proposals for a new overpass bridge and a large marina/restaurant facility on Daingerfield Island, both of which have been recently approved.

The Smithsonian complex along the Mall has involved the Commission in review of plans for alterations, including additional mechanical space for the Museum of Natural History, placement of a 19th century bandstand at the Museum of American History, and a proposed new restau-

rant pavilion for the Air-Space Museum. The Commission has worked very carefully with the Smithsonian and its architects on all visible details of the Quadrangle project now under construction adjacent to the Castle.

One of the official bodies we work most closely with is the Pennsylvania Avenue Development Corporation, and I think we can take some satisfaction in the progress that is being made on the "Avenue." The Commission has reviewed major projects that are under way in the Market Square area between 6th and 8th Streets which will include retention of historic structures, such as the restored "Apex" Building, along with an extensive new mixed-use project, called Pennsylvania Triangle, which should add to the vitality of Pennsylvania Avenue. The Navy Memorial will, of course, be one of the key public features of that area. Construction is under way on another major project just west of the FBI Building, the Cadillac Fairview Development; between 13th and 14th Streets another large development nearing completion includes the National Press Club and the National Theatre. Another project affecting the public space is the addition of new flagpoles on Western Plaza on axis with the entrance to the District Building.

The excitement of having the Old Post Office open as a lively asset to downtown Washington, the National Theatre reopening, and the Willard Hotel renovation and construction show the positive results of years of effort. We hope to continue the progress as part of a team including the public sector, from the Congress to the PADC, and the private sector with its initiative, so much a part of the Avenue's revitalization.

Along upper Connecticut Avenue the Commission remains involved with all design development of the INTELSAT Headquarters which is now under construction. Just to the west of this installation is the Department of State International Center where the Commission has advised on the designs of chancery buildings now completed and several yet to be built, as well as the landscaping of the entire area.

The National Zoo Staff has been meeting with the Commission on upgrading their master plan with proposals to consolidate vendor services, improve pedestrian circulation and spruce up of the major entrances. They are also planning several new exhibit areas. An additional step which we encourage is completion of the parking structure along the edge of Rock Creek Park, making it possible to eliminate much of the existing eyesore surface parking adjacent to the animal exhibit areas.

The Commission has advised the District of Columbia on alternative highway routings between Pennsylvania Avenue, S. E., and Kenilworth Avenue on the east side of the Anacostia River to minimize impact on adjoining parklands and especially on Capitol Hill residential areas. The only public buildings designed by the District Government in the last year were a firehouse planned for First and Atlantic Streets, S. E. and major new offices at 14th and U Street, N. W.. Also, the Office of the Mayor and several federal agencies jointly presented preliminary designs for a large scale project in Southwest Washington near the intersection of the Southwest Freeway and Maine Avenue. With a working title of the U. S. International Cultural and Trade Center Project, this development, coordinated by the Federal City Council, could help the city's position in the area of holding foreign trade exhibits.

We also advise the Mayor on permit insurance for private construction and alteration in the Georgetown Historic District and in the Shipstead-Luce Act area flanking the Mall, the Capitol Grounds and Rock Creek Park. Our activities in Georgetown have been at a smaller scale in the last year, but we are beginning to see additional pressures

for new construction on the Georgetown Waterfront and M Street again. Such proposals will involve careful examination by the Commission. The Commission is still concerned about overbuilding in Georgetown generally because of potential adverse effects on the historic district and Rock Creek Park. We shared our views with you on that problem last year and have continued to work with the National Park Service, the District of Columbia Government and the citizens of Georgetown to balance public and private interests.

There has been recent attention given to some of the residential complexes at Georgetown University. Both the newly constructed townhouse-type dormitories and the renovated student apartments were reviewed by the Commission and its advisory board of architects. We note that the University is even now discussing additional master plan elements with the community and the District of Columbia Government. We have been involved as well to help assure that both the historic district and the federal interest are protected, because of the visibility of the campus from the Potomac palisades and the George Washington Memorial Parkway.

We have been working with the Citizens Association of Georgetown to help assure a cooperative effort at getting the growing number of illegal signs and awnings brought under the city's regulation and enforcement branches. This entailed meetings with the Georgetown Neighborhood Advisory Commission, the Georgetown Businessmen and Merchants Association, and our own Georgetown advisory board of architects, as well as appearing at a Citizens Association meeting to call attention to the problem.

Our major activities in the Shipstead-Luce area have involved proposals along 15th Street adjacent to the United States Treasury Building, and projects south of the Capitol: the Democratic National Headquarters Building, now under construction, and the adjacent Democratic Club, now under design for renovation and an addition. To the East of the Capitol we have been working with the Folger Shakespeare Library on the design for an Elizabethan garden facing 3rd Street.

The Bureau of the Mint of the Treasury continues to seek Commission advice on the designs for new coins and medals, including the Gold Medallion Series honoring American artists. We have also reviewed several military decorations for the Department of the Army's Institute of Heraldry.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Your justification provides no information on specific Commission accomplishments (activities) in FY1983 or anticipated accomplishments in FY1984 and FY1985. What major construction projects did you review in 1983 and what was your advise?

What remains to be done on the Vietnam Veterans Memorial? What was your involvement in the Georgetown Waterfront construction project (hotel-office complex along Rock Creek)?

* * * * *

What other major construction projects currently being considered that require your approval?

May 24, 1984

Dear Mr. Chairman:

On behalf of the Commission of Fine Arts, I am happy to enclose the supplemental information to our budget statement as you have requested. So that the Committee may have specific information on several of the most significant projects, and because most of those projects involve review and coordination over several fiscal years, we are enclosing excerpts from our official minutes and related letters to the various agencies we deal with. Many of them will relate to previous, or expected further contact as various designs are modified and final details developed.

In that context I shall address two of the specific projects, of which you inquired: the Vietnam Veterans Memorial, and the Rosewood Hotel/Georgetown Harbour Phase II.

Vietnam Veterans Memorial:

The Vietnam Veterans Memorial project involved Commission action going back several years starting with the Congress seeking our advice on authorizing legislation on February 12, 1980. After much consideration and a number of public meetings the Commission approved the memorial design and the existing elements were constructed. Management and visitation problems made it wise to incorporate additional walks, lights and directories after construction. (Exhibit A), Additional design elements including a flagpole and a statue were required to be added to the memorial. These have involved a continuity of review and discussion with the National Park Service and the Vietnam Veterans Memorial Fund up through May 16, 1984 when the Commission gave final approval to the full-size sculptural model. We expect that we will be reviewing the eventual bronze castings, as ready, and will work with the sponsors on actual siting of the sculpture when it is finished. We expect this to occur sometime later this year.

Georgetown Waterfront:

The Georgetown Waterfront project, (O.G. 84-65, 800-900-30th Street, N. W.), involves review of designs for a new office/hotel complex between K Street and the Potomac River next to Rock Creek Park. The concept designs were reviewed by this Commission on January 31, 1984. Our recommendations, as you can see from the enclosed material, included restudy of some design elements and a recommendation

for coordination between the National Park Service and the District of Columbia Government. (Exhibit B). The developers have indicated that they intend to make a presentation to the Commission of their design refinements and efforts at coordination at our Commission meeting scheduled for June 28, 1984. At that time we expect to continue our review of the designs with the expectation that they will be in accord with applicable District of Columbia and National Park Service constraints.

Pennsylvania Avenue:

One of our primary continuing projects has been review of designs for private and public works in the Pennsylvania Avenue Development Corporation area. On May 16, 1984 we first saw, and have given preliminary approval to the Canadian Chancery at John Marshall Park and Pennsylvania Avenue. We anticipate additional discussion as that building is further detailed and materials for its exterior are selected. We are enclosing data on three other Pennsylvania Avenue projects which are now under way. The Westminster Development project at Sixth and Pennsylvania Avenue which is a large mixed-use commercial development, approved after several reviews on July 12, 1983 is the first. (Exhibit C). Second is the adjacent Navy Memorial/Market Square project at Eight and Pennsylvania Avenue for which there was a ground breaking on May 17, 1984. (Exhibit D). Another significant project, which we have all hoped for, for many years, is the restoration of the Willard Hotel at 14th and Pennsylvania Avenue. It was approved on October 12, 1983 by the Commission and is now underway. (Exhibit E).

Smithsonian Institution:

The Smithsonian Institution frequently seeks Commission advice on a broad variety of projects from handicapped ramps to major new buildings. The Smithsonian South Quadrangle project, now under construction between Independence Avenue and the Smithsonian Castle was approved on November 10, 1982 after two years of design review and refinement. As the construction progresses we will have on site review of material samples and landscape designs. Additionally, we reviewed designs for a new restaurant planned for the east terrace of the Air Space Museum in October of last year and January of this year on which I am enclosing our minutes and actions. (Exhibit F). There has also been significant refinement of plans for the National Zoo which the Commission reviewed and approved on December 13, 1983. (Exhibit G). That data is enclosed.

Semi-public Projects:

We are also enclosing material on two major projects involving cooperation of the public and private sectors: The U. S. International Cultural and Trade Center proposed for Southwest Washington and reviewed on May 10, 1983 and the rehabilitation of Union Station reviewed on the same day. (Exhibit H).

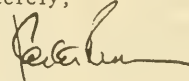
Future Projects:

As to major projects anticipated in FY 1985, we anticipate a good likelihood of some continuous monitoring of all the above mentioned projects. In addition there will be the Cadillac-Fairview project at 10th and Pennsylvania Avenue and the Metro Center Project at 12th and G Street respectively in the jurisdictions of the Pennsylvania Avenue Development Corporation and the D. C. Redevelopment Land Agency. We understand that funds have been authorized for further design work on the FDR Memorial, and as that progresses we

will be involved. Our review annually of several hundred million dollars of private construction in the Georgetown Act and Shipstead-Luce Act areas will continue. The Department of State has indicated that they would soon be discussing an additional section to the International Chancery Center at Van Ness and Reno Road. Also refurbishment of the various military installations in the Washington Area will undoubtedly continue. The General Services Administration and the District of Columbia will continue to ask Commission advice on substantial alteration and new construction.

Should the Committee have any further questions we will be delighted to respond.

Sincerely,



J. Carter Brown
Chairman

(Exhibit A, CFA Minutes)

July 12, 1983

✓ C. Department of the Interior, National Park Service,
National Capital Region

1. CFA 12/JUL/83-3, Vietnam Veterans Memorial.

- a. Lighting of memorial, report on mock-up inspection,
11 July 1983.
- b. Paving samples, report on mock-up inspection,
11 July 1983.
- c. Locator design, confirmation of Commission reaction
and authorization to proceed.

Before this submission was discussed, the Secretary introduced Jan Scruggs, president of the VVMF, who made some general comments on the need for night lighting at the memorial. Mr. Scruggs said the numbers of visitors coming to the memorial at night had grown significantly during the summer months, and the Park Police felt that lighting was definitely needed for safety reasons as well as for seeing names on the wall. He said visitors were using candles, flashlights and matches to be able to see the names. Mr. Scruggs concluded his remarks by noting that the sod replacement was almost complete, except for the area near the wall, where they will wait until the electrical conduits for the night lighting have been installed.

Architect Kent Cooper was then introduced. He showed slides of the lighting mock-up, as seen by the members the night previous to this meeting. He showed drawings of the low light fixtures proposed and pointed out their location, in the ground, along the walk, at the joint of every other panel of the wall. This location was chosen to keep them out of the way, as much as possible, of those searching for names. The members were very pleased with the way the lights

illuminated the wall, and their effectiveness in warning those approaching from the north that there was a sudden drop-off. The major criticism during the inspection had been that the light should be more even, with less at the bottom and more at the top, where the names are farther away. The Chairman said he thought this could be corrected without great difficulty. Mr. Burson added that he had been concerned that there was a possible safety hazard with people stepping backward onto the lights and falling.

The next speaker was Captain John Bender, U. S. Coast Guard, retired. He said he was a volunteer at the memorial and had noticed that the names on the upper part of the wall were hard to see because of reflections; people searching for them tended to move back and forth, trying to see more clearly. Like Mr. Burson, he was afraid that in the intense concentration of their search, they would be unaware of the light fixtures and trip over them. The members agreed that this was something that should be studied further. Mr. Scruggs said he had talked to Claude Engel, the lighting consultant, and he thought the fixtures could be redesigned to minimize this danger. Recessing the fixtures was suggested, but was pointed out that this invites dirt and water problems.

A question was asked about the lighting of the sculpture and flag. Mr. Cooper said he was not ready with final plans, but could say that the sculpture would be lighted from the trees, the flag from the ground, and all lighting levels would be kept low.

The members agreed unanimously to approve the lighting concepts, with the request that further study be given to the safety factor and achieving a more balanced illumination of the walls.

The Secretary then noted that the design of the name locator had previously been circulated to the members and their instructions had been to proceed. This approval was then formally confirmed.

The paving samples were not discussed at Mr. Cooper's request; he said he would be ready to present these at the next meeting.

2. CFA 12/JUL/83-10, National Sculpture Garden restaurant (Mr. Netsch left the room because of his previous association with the architects, Skidmore, Owings & Merrill.) The Assistant Secretary located the site, just west of the National Gallery of Art, on the Mall, next to the pool/ice skating rink. He said the Commission had reviewed this design in 1971 (completely revised from the original submission at the Commission's request) and liked it, but it had never been erected and a temporary facility had taken its place. He said that recently GSI had indicated a desire to build a permanent restaurant facility and had hired SOM, the original designers, as their architects. He then introduced John Parsons from the Park Service who gave the members additional background information on the project. He said the skating rink and restaurant facility had been part of SOM's 1965 plan for the Mall. In 1972 the skating rink was constructed as well as the basement of the restaurant, according to SOM's design as approved by this Commission.

Architect David Childs was then asked to discuss the restaurant pavilion design and the landscaping proposed for the area in more detail. Mr. Childs showed an elevation drawing of the gardenesque, 19th century type building and noted that it had been designed by Charles Bassett of SOM's San Francisco office. He said it was originally intended as a cafeteria facility, but would now be a high quality restaurant with waiter service; therefore, the building would have to be widened by 8 feet (but not lengthened) to provide a seating capacity of 200 and expanded kitchen facilities. The drawing showed a glass wall building with metal mullions shaped like tree trunks with intertwined branches, recalling art nouveau forms. The mullions would be painted dark grey and the roof light green. Mr. Childs said some minor modifications had been made to the original design for energy saving considerations.

EXHIBIT A

July 14, 1983

Dear Jack,

The Commission considered the lighting designs for the Vietnam Veterans Memorial at their meeting on July 12, 1983. As you know the memorial was never intended to be lighted at night, but the large number of visitors to the site after dark has virtually made it a necessity.

It was encouraging, therefore, to see just how well this new element of the design works. As currently conceived, the illumination of the names would be from a series of small surface-mounted sources located on the ground in the space between the walkway and the wall itself. The lighting that we saw on our evening inspection before the meeting was very good indeed. There were reflections on the walls from the source, which are unavoidable but not that objectionable; otherwise the level of the illumination was just about right to make most of the names readable. The names close to the top of the wall were not as distinct owing to the greater distance from the light source. One way to overcome this would be to increase the level of lighting at the source, at the same time modifying the amount of lighting hitting the lower part of the wall closest to the fixtures so there will be a more even illumination of the entire wall surface from top to bottom. We suggested that the lighting consultant experiment to see if this kind of effect could be achieved.

The other problem that has developed with the proposed scheme is the potential hazard of tripping over the small ground mounted fixtures. Since there seems no practicable alternative to their presently proposed location, this hazard could be minimized by setting the fixture into the ground an inch or two more and slightly mounding the surrounding surface around it so as to make it less of an obstacle.

Such surface-mounted lights are common features in European streets, are unobtrusive and do not present much of a hazard to pedestrians. A modified version of this approach may be the answer, and is currently being explored by the architect, Kent Cooper. We will be happy to take a look at his studies at our next meeting. As we stated in the meeting, the hazard factor has to be weighed and a decision made by the NPS and the VVMF; from an appearance point of view, the Commission is in favor of the current approach. We also stand ready to look at proposals for paving and possibly another more detailed look at the proposed sculpture.

Finally the Commission would like to confirm their approval of the design for the bronze directory holders. It was circulated to the members earlier for their comments, and the current design is approved.

Sincerely,



J. Carter Brown
Chairman

Mr. Manus J. Fish
Director
National Capital Region
National Park Service
1100 Ohio Drive, S.W.
Washington, D.C. 20242

(Exhibit B, CFA Minutes)

31 January 1984

II. SUBMISSIONS AND REVIEWS

✓ A. District of Columbia Government, Department of Consumer and Regulatory Affairs.

1. Old Georgetown Act

a. O.G. 84-65, 800 and 900 30th Street, N. W., Washington Harbour Associates, 7 story office and hotel buildings, concept review. The Assistant Secretary noted that this submission was for conceptual review of phase 2 of a large scale project on the waterfront now under construction between 30th and 31st streets. He recalled that the Commission had reviewed a development on this part of the site, bordering Rock Creek, in 1980. The earlier project, submitted by the same developer, had been a modest three and four story, residential/retail development; this was for two taller buildings, one a hotel, the other an office building. He noted that the site was considered a floodplain, and he said that the staff had sought advice (not yet received) from the Justice Department as to the Commission's responsibilities in this regard. He said the applicants

would make their presentation and would be followed by representatives from the federal and district governments and then individuals who wished to speak for or against the project.

The architect, Arthur Cotton Moore, began the presentation. He showed slides of the site, pointing out the overgrown condition of the creek and its banks, the several roadway bridges crossing it, and the nearby oil storage tanks and coal piles belonging to the U. S. government heating plant. He said the applicant had considered two options in developing this site: to conform to the present Park Service easement on the property and erect a 20 foot high building covering the entire site, to the edge of the creek; or, to propose setting the building back 40 feet from the edge of the creek and adding 40 feet to the height, making the building 60 feet high. He saw the 20 foot high building as having one story above grade, with an atrium and three floors below. Mr. Moore said the applicant's preference would be to develop the taller buildings. He then discussed the scenic and public uses of the entire development, from 31st Street to Rock Creek. He said the developer had already agreed to contribute to the cost of construction of a park on District land between 31st Street and Wisconsin Avenue, and the new seawall he agreed to put in was nearly completed. On the site in question at this meeting, he would landscape the "Mole" area and both creek banks. Virginia Avenue would be carried across the creek as a bridge, connecting this part of Georgetown with Foggy Bottom. He noted that there would be bicycle and pedestrian paths on both sides of the creek.

Mr. Moore then discussed the design of the buildings. The hotel would consist of a ground floor and a body of four floors, topped by cornice and mansard floors. In style it was similar to Mr. Moore's adjoining large scale, mixed-use project, employing domed elements and multi-story pilasters of Classic derivation. The office building was similar but featured a terracing back of floors. There were 16 foot high penthouses on the roof of each building, set back in the middle of the roofs, where they began, but curving out to become flush with the walls at the Virginia Avenue portal, creating 12 foot wide elements 76 feet high. In this way, Mr. Moore explained, the gateway aspect of Virginia Avenue would be emphasized, and the height would still be less than that of the Four Seasons Hotel nearby, which is 78 feet. He showed slides of historical precedents for the type of development he was proposing, in Georgetown and in Europe.

Landscape architect Joseph Brown, from EDAA, then discussed the landscaping and public amenities aspect of the project. He pointed out on a map the scenic easements granted to the Park Service by Washington Harbour Associates, and the access easements from the Park Service to Washington Harbour Associates for public docks. He said the "Mole" property, owned by the Park Service, would be landscaped in a meadow-like fashion, and also be maintained by the developer. The banks of Rock Creek would be landscaped in a natural, picturesque manner with meandering pedestrian and bicycle paths. Landscaping of the west bank would be maintained by the developer and the east bank by the Park Service. He said these plans were all tentative, pending the outcome of the discussions between the Park Service and the developer on easements and the exchange of land.

Mr. Netsch asked some questions about the use of the parking lot near the Thompson Boathouse. Mr. Parsons said it was needed for the users of the marina, but was not restricted and was used frequently during the week by those working in the area. He said the Park Service did not want to see it become a facility for this new project.

The next speaker was Robert Zimmer, president of Rosewood Hotels, the prospective developer of this site. He said his firm was owned by the Carolyn Hunt estate of Dallas; he noted the long-range character of their development interests and emphasized the commitment to excellence and the creation of a total environment in their projects. He showed photographs of several Rosewood hotels in Texas and California.

This concluded the applicant's formal presentation, and the Assistant Secretary then gave the members copies of the report made by the Georgetown Board after their review of the project on 25 January. Exhibit A

After the members had read the report, John McCoy of the District's Planning Office was asked to comment. He said his office had reviewed the proposal and recommended general concept approval, in terms of the design scheme. He said it was thought that the type of architecture was appropriate to Georgetown and that the plan offered a unique variety of amenities--the gateway concept, publicly accessible parkland, improved pedestrian circulation and access, and an appropriate mixture of land use. However, he said that several functional aspects needed more study before final approval could be given--traffic and environmental impact, a solution of the Park Service easement question, and final design details in terms of zoning regulations.

Mr. Netsch asked Mr. Parsons to clarify the easement question and the exchanges being considered. Mr. Parsons said the Park Service was in the middle of the process, with a public hearing having been held on 17 January. He said there had been a lot of public comment and that traffic, environmental and real estate appraisals were being conducted and discussions held with the developer regarding landscape details. He said the Park Service would like to have the Commission's comments on these aspects of the development while the evaluation was going on.

The Assistant Secretary asked the Chairman of the Georgetown ANC, William Cochran, if he would like to comment. Mr. Cochran said the project would come before his group the next day, and until then he could not give an official report.

Proponents of the project were then asked to speak. Wilhelmina Halliday, a Georgetown resident for seventeen years, said she had stayed in the Rosewood hotels and thought Georgetown would be fortunate to have one. She commented that in the past, projects had been turned down in Georgetown only to be replaced by something worse; she thought this was the kind of project that would be beneficial and should be approved. John Sheehan, former member of the board of governors of the Federal Reserve System, agreed with Mrs. Halliday. He said that as the owner of a hotel in Pennsylvania, he knew this small hotel would not be a profitable enterprise and that it was being developed primarily as a contribution to the city. He thought such projects should be encouraged. He noted that the Citizens Association of Georgetown did not speak for him, nor for many other Georgetown citizens, in matters such as this.

Kenneth Sparks, representing the Federal City Council, submitted a statement for the record. In this statement the Council urged approval of the concept, citing the many public benefits the project would bring: access to the Potomac and Rock Creek, stabilization of the banks of the creek, landscaping of Park Service lands, and the construction of the pedestrian bridge connecting Georgetown and Foggy Bottom. Exhibit A-1

The Chairman then asked if citizens or groups opposed to the project would like to speak. Juan Cameron, president of the CAG, said he would like to speak but stressed that the association was not at the time against the development since not enough was known about it to take a position. He said he found much that was appealing in the plan--the scenic easements and landscaping--but the CAG would want to resist any change in the 20 foot building height requirement until many questions had been answered. He said the floodplain question remained, and there was also the question of the appropriateness of a building of that height and size so close to parkland and the major memorials. He thought the grandiose design of the building was also questionable. He recalled that the Commission's 1980 approval was for a much smaller structure on this site.

At this point Mr. Netsch asked Mr. Zimmer what the relationship was between the hotel and the office building. He said he was thinking that the volume of the hotel alone could be accommodated in a 20 foot high building that covered the entire property. Mr. Zimmer said the two buildings were really one project: both would be developed and managed by Rosewood Hotels; they would be connected underground and interrelated in several different ways.

The next speaker was Ann Satterthwaite, representing the Committee of 100 on the Federal City, an organization founded in 1923 to promote careful planning in the Capital. She noted that two other board members--Elizabeth Rowe, former chairman of the Planning Commission, and John Nolan, Executive Director of the same commission--were not able to be present but were strongly in favor of the position she would present. She said the Committee was especially conscious of the importance of parks in the Federal City and considered the mouth of Rock Creek, where it meets the Potomac, the beginning of the important Rock Creek Valley park system, one of Olmsted's "green fingers" of the city. She said it was important to counter the fast approaching urbanization of the area and that is why there was a Park Service easement on the land. When the government bought the C&O Canal property, this was one of seven pieces of land the railroad wanted to keep. Because of the interest at that time in the development of Rock Creek Park and Rock Creek Parkway, the easement was placed on this railroad property to prevent urban intrusion in this important bend of the river. She recalled that even the 1979 Memorandum of Agreement on the waterfront provided for a 60 foot easement along Rock Creek. She said the building proposed was much too large for the site, and she showed perspective drawings of the proposed development and a 20 foot high development, as they would look from the pedestrian level. She added, also, that the Committee was very concerned about building on this floodplain and thought that the executive order on floodplain development would apply to this project. Lastly she noted that the Committee of 100 was not a neighborhood organization, did not represent Georgetown, and was concerned with the recreational, environmental and esthetic needs of the entire city.

Donald Shannon, former president of the CAG, said he wanted to emphasize the importance of the mouth of Rock Creek, its early use as a trans-shipment basin for canal and the fact that it has never been developed; as well as its importance as the beginning of a renowned urban park system. He said he hoped the easement on this property would not be given up. He recalled also that the permit granted for the main project required that passage along the river and various means of access through the project be granted; he wanted to stress that the developer did not give these amenities to the citizens of Washington.

Mr. Netsch then asked Mr. Parsons if he would explain how the 20 foot easement came about. Mr. Parsons said it was a complicated exchange that occurred in 1941 between the C&O Canal Company and the B&O Railroad involving uses of properties along the canal. The railroad was allowed to use this property in exchange for a 20 foot height easement, an agreement influenced by the desire of the Park Service and the Planning Commission to keep development on the property low. Mr. Stone recalled that the 1980 development proposal showed a 60 foot setback along the creek; Mr. Moore confirmed this and said they showed a 40 foot high residential/office development. Now, he said, it seemed preferable to allow only 40 feet on the west bank and then to landscape the east bank, something they had not planned to do in 1980.

The last speaker was Sydney Howe, from the Human Environment Center. He said his group had worked for four years with other interested organizations to make the Georgetown waterfront a place where an urban population could find decent recreational opportunities. He said most federal agencies had been sympathetic to this type of development; he noted, however, that there was a conspicuous lack of leadership from the National Park Service. He had been particularly disturbed to read the announcement of the public hearing on the easement and land exchanges affecting this property and find that the regional director of the Park Service thought the exchanges proposed would be largely beneficial. He hoped that the Commission of Fine Arts would find that the easement should be retained and thus encourage the Park Service to take a similar stand.

The Chairman then began a discussion of the project, using the Georgetown Board's report as a point of departure. He said he would agree with the Board's first point, favoring the public improvements proposed for Rock Creek, the Potomac River and the area west of 31st Street. He said it must be realized that this is a city park, not a country park, and as such, one would expect it to be ringed with buildings.

Mr. Netsch then said that rather than comment on each point made by the Board, he would prefer to make a statement on the whole situation as presented to the Commission. He said his difficulty was that the Commission of Fine Arts, established to make judgments on esthetic matters, was again being forced to make a decision on financial, not esthetic, dealings involving the 20 foot easement. He said it was not clear, in light of all the urban needs, what the esthetic benefits would be if this land exchange agreement took place. Also, he was not convinced that the density needed to be increased to the degree requested in order to build a project for a client who had stated that his philosophy was "less is more". He concluded, "My reservations are, again, we are getting pushed to the edge in maximum development where...there should be some kind of balance between financial gain and esthetic gain."

Mr. Moore said the density was not being increased as much as Mr. Netsch thought it was, and that these matters were being worked out with the Park Service. Mr. Netsch said they should have been worked out before asking this Commission to make a decision. Mr. Moore said a conceptual approval could be given contingent upon receiving the final proposal. Mr. Netsch said this was what had happened with the approval of the adjoining project, that it had been interpreted as a final approval, and he did not want that to happen again.

The Chairman told Mr. Moore that all the Commission could do at this point would be to give some kind of conceptual reading in design terms about what had been proposed. He asked first for a conceptual approval of EDAW's landscape plan. Mr. Chase said he had been worried about public access and use of lands immediately adjacent to the water, but thought these plans quite acceptable.

He asked, though, that Mr. McCoy give the city's reaction to that. Mr. McCoy said they were satisfied with the amount of public land and access that would be available. Mr. Chase then said that, confining his reaction to esthetics only, and concept only, he thought it was an acceptable job. Mr. Stone said he thought the public improvements were fine as far as they went, but he would prefer the setback from Rock Creek to be greater than 40 feet.

The Chairman said he gathered there was approval for the concept of a bridge to connect Georgetown with Foggy Bottom, but would like to know how important the members felt it was to keep the "paper access" of Virginia Avenue open. In other words, if some sense of gateway were kept, if one could see the Washington Monument through an arch, would it be acceptable to allow building on the air rights over the street? In answer to a question, Mr. Moore said there were areas in the project where the street would be covered over, but he knew that actually closing a platted street would probably not be allowed by the Planning Commission.

The Chairman then turned to items on the Georgetown Board's report having to do with style. When asked about what materials he intended to use, Mr. Moore said brick would be the principal material with limestone used for the pilasters and other trim. The brick would be buff or greyish in tone, similar to the Willard Hotel. He said the adjacent project was being treated as a series of separate buildings with varying colors, basically light in tone, that would harmonize with this development. The discussion then turned to the question of height and setbacks, raised in the Board's report. The Chairman said he was most bothered by the penthouse treatment and the gateway silhouette. He said he found it ungainly, as did two other members, and the Board's report indicated that it felt the same way. Mr. Moore said he thought the Board liked the gateway concept, but as far as the penthouse configuration was concerned, he could come back with several options. The Chairman thought the increased height at that point would have an undesirable impact on the park environment and be overly visible from the city. He stressed the uniformly low height that is characteristic of Georgetown and said the excessive height of the power plant could not be used as an argument for allowing increased height in new buildings. Mr. Moore said he was not referring just to the power plant, but also to the Four Seasons Hotel, which is 78 feet high from the canal with an 18 foot penthouse. At the gateway corner, his building would be 76 feet high and only about 60 elsewhere. The Chairman observed that the park environment, the relationship between the tree canopy and the buildings beyond were really what counted. Mr. Moore said the area was zoned for 60 foot buildings, but the Chairman reminded him that with the easement, it was still 20 feet on this site.

The Chairman then noted that the Georgetown Board thought the proposed project complemented the adjacent buildings now under construction; the report also said that the Board did not want to engage in a discussion of the floodplain question. The Chairman said he thought that was the position of the Commission as well. The last point in the report was that the CAG thought the landscaping of the mouth of the creek was too urban. Mr. Moore said he would be happy to work with the citizens on this matter.

The Chairman thought this was about as far as the Commission could go at this meeting. He said a very preliminary reaction was being asked for, but if the Commission had to make a decision on the design as expressed in the model shown, it would have to receive the Commission's disapproval.

February 8, 1984

Dear Ms. Thompson:

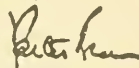
I am writing in reference to the application for conceptual review of a proposed office and hotel structure in the 800 and 900 blocks of 30th Street, N.W., on the Georgetown Waterfront (O.G. 84-65).

This application was reviewed by the Board of Consultants for Georgetown at its meeting on January 25, 1984, and by the Commission of Fine Arts on January 31. Extensive testimony was presented at these meetings by both the applicants and project sponsors, by representatives of several organizations opposing certain aspects of the project, and by representatives of the National Park Service who reported on the current status of negotiations for the exchange of easements and other matters applicable to the development of the site.

At the conclusion of these discussions, the Commission considered the design. There were a number of concerns expressed, such as the overall height of the project and the emphasis placed upon the architectural elements defining the Virginia Avenue portal. Because of these concerns, the consensus was that the architectural design, in its present form, should be disapproved.

The Commission will be happy to consider additional studies at its next meeting, which is scheduled for March 13. The studies, however, should first be submitted to the Georgetown Board. A schedule of Board meetings, prior to the March 13 Commission meeting, can be obtained from this office.

Sincerely,



J. Carter Brown
Chairman

Ms. Carol B. Thompson
Director
Department of Consumer and
Regulatory Affairs
614 H Street, N.W., Room 307
Washington, D.C. 20001

(Exhibit C, CFA Minutes)

July 12, 1983

✓3. CFA 12/JUL/83-7, Pennsylvania Triangle (Westminster Development Project), final building plans and material samples, 6th and Pennsylvania Avenue. (Previous CFA 9/MAR/82-2, CFA 10/MAR/81-5) Mr. Carson noted that this was a submission of final plans for this major office, hotel and apartment project. He introduced Jacquelin Robertson from Robertson/Eisenmann to make the presentation. Mr. Robertson began by noting that the working drawings were two-thirds finished and the site had been cleared, with the exception of the 1886 Atlantic Coast Line building, which will remain. He then reviewed the design, saying that his firm had taken into consideration the triangular site and its place in the L'Enfant plan, as well as

the configuration of the Federal Triangle and the organization of its facades. He said there had been three scales to consider: (1) the 1890's scale buildings, 60-70 feet high, reflected in the limestone "wrapper" at this height running around the new building; (2) the Federal Triangle scale with its base course and cornice idea; and (3) the scale of the recent high rise buildings to the north. The Federal Triangle idea was repeated in the new building by a two story, heavily articulated limestone base, a smooth limestone section above, a cornice, and an additional smooth finished story. Above this section (approximately 70 feet high) was a precast concrete tower section. Mr. Robertson said the cornice, and the trim around the openings and the ground floor glass canopies, would be dark green painted metal; the office building lobby would be finished in green granite, recalling the interior of the Federal Triangle buildings. He then showed material samples--a creamy white precast, and a darker limestone, ribbed for the base, smooth above.

Mr. Robertson then discussed the garden between the two buildings. Drawings showed an arcade around the outside with green painted metal trellises on which wisteria climbed. The central area featured a fountain and planting beds of azaleas and other shrubs and trees. He said the arcades would have metal vaults, painted green, and the paving would be brick. He noted that the hotel would be set back to give more light to the garden, and that there would be a seven story atrium, palm court, and elevators in dark green metal cages, much like the garden trellises in design. The developer's representative said the hotel will have 240 rooms with 196 housing units above.

The members were all very pleased with the final plans and materials and approved them unanimously.

EXHIBIT C

July 14, 1983

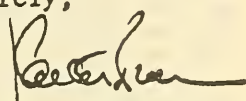
The Honorable
Henry A. Berliner
1100 Connecticut Ave., N.W.
Suite 420
Washington, D.C. 20036

Dear Mr. Berliner,

During the meeting of the Commission of Fine Arts on 12 July 1983, the members reviewed the submission for the Pennsylvania Triangle complex proposed by the Westminster Development Project. I am pleased to tell you that the members greeted the presentation of draw-

ings, models and material samples with great enthusiasm and recommended acceptance of the designs as presented.

Sincerely,



J. Carter Brown
Chairman

(Exhibit D, CFA Minutes)

31 January 1984

VB. Pennsylvania Avenue Development Corporation

CFA 31/JAN/84-1, Market Square Park and Navy Memorial, 8th Street and Pennsylvania Avenue, N. W., design development (Previous CFA 12/OCT/83-4) James Rich of PADC said he would like to report on progress made in responding to the comments of the various agencies involved in the review of this project. He noted in particular that the Park Service had raised questions of maintenance in regard to the glass colonnade structure and the planting of trees beneath it. He said they were working on this and were confident it could be solved satisfactorily. He introduced Peter Manning from the office of Conklin and Rossant, architects, to give a more detailed report. Mr. Manning noted first that all except the two northernmost flags, on the 8th Street axis, had been removed from the colonnade; two flags had been added at the Pennsylvania Avenue entrance, on the same axis. He then discussed the trees to be planted under the canopy, saying that possible growing problems had been investigated; the canopy would be well ventilated and proper irrigation and drainage could be assured. The other elements in the memorial scheme remained essentially the same. Mr. Manning said there would be an 18 inch seating wall around the water elements, and the central disc-shaped plaza, as before, would be surrounded by four wall sections with bronze panels on which would be depicted naval scenes in bas-relief. In front of the Archives building, the two pools and 8-9 foot water jets remained; there would be a re-pitching of the pavement so that it would be flush from entrance to curb. A new element here would be a paving pattern connecting the Navy memorial with the Archives facade. This would not be a crosswalk, only a visual means of tying the two elements together. Mr. Manning then discussed the map on the central disc. He said it would be done in several shades of granite and would be an azimuthal projection, beginning with Washington as the center of the globe. This would show the whole globe and emphasize the island character of the land masses. Seating for the band would be at the north end of the disc on permanent risers; the audience would be seated on pillows that would be stored in an underground storage facility that would also contain dressing rooms, toilets, etc. The sculptural program would consist of a statue of a lone sailor, to be placed in the Pacific Ocean area on the disc, two other major pieces in the water elements along Pennsylvania Avenue, and the bas-relief panels previously mentioned. Mr. Netsch said he was very pleased with the progress that had been made. He thought it a much better scheme than the triumphal arch that had been proposed previously and more meaningful to the Navy men who would visit it and be able to locate on the map the areas in which they had served. The Chairman said he has some reservations about the use

of the azimuthal projection and the apparent distortion it brought to the sizes of land masses; for example, the size of the United States appeared extremely small when compared, for example, to Australia or the Soviet Union. He suggested that one possibility would be the use of a view of this part of the world from outer space; it would not show the whole globe but it would be intelligible to the average visitor who might not understand the azimuthal projection. Mr. Rich said the use of this projection was not final, but they had liked it because it included the entire globe, an advantage since there would be visiting dignitaries from all over the world. The Chairman suggested that there could perhaps be an insert, in the Pacific Ocean area, showing the part of the globe not visible in the main projection. Mr. Rich said he understood it was possible to correct an azimuthal projection, and they would discuss this, as well as other projections, with the Defense Mapping Agency. Other than this recommendation for further study, the members unanimously approved the design development.

EXHIBIT D

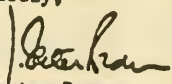
February 9, 1984

Dear Mr. Berliner:

The Commission met with members of your staff and Mr. Peter Manning, of Conklin, Rossant, Architects, on January 31, 1984 to discuss design developments for the Navy Memorial and the Market Square Park. The Commission fully approved the concepts for the area and the revision of the canopy element which would make it smaller and have flags facing only the 8th Street axis. Those flags combined with the pair toward Pennsylvania Avenue should be sufficient.

We realize that a great many details are yet to be developed in this project in conjunction with the adjacent development and the relandscaping of the north side of the National Archives Building. The Commission looks forward to reviewing these various design elements as they are developed. One part of the memorial which may still benefit from additional study is the depiction of the world map that will be the basis for the surface treatment of the circular plaza. We like the idea of having the United States, more specifically Washington, D.C., the center of the map, but somehow the azimuthal projections show the peripheral geographic areas disproportionately large. It would be better if this distortion in the apparent importance of the outlying land masses could be lessened if at all possible.

Sincerely,


J. Carter Brown
Chairman

Mr. Henry Berliner, Chairman
Pennsylvania Avenue Development Corp.
425 13th Street, N.W.
Suite 1148
Washington, D.C. 20004

(Exhibit E, CFA Minutes)

October 12, 1983

B. Pennsylvania Avenue Development Corporation

1. CFA 12/OCT/83-3, the Willard Hotel. The Secretary presented mounted drawings for the renovation and addition to the Willard Hotel at 14th and Pennsylvania Avenue, N. W. He told the Commission that the plans were consistent with, though much more detailed than, the original Willard scheme approved by the Commission several years before. The scheme as originally conceived by architects Hardy Holtzman Pfeiffer for the Fairmont/Golding developers had been retained, though Oliver Carr had assumed control of development and Vlastimil Koubek had become architect. Mr. Koubek was introduced and he described the design and the proposal.

The old section of the Willard would be repainted, including the badly stained limestone base and cornice. The new additions would be of a glazed, matte finish brick, similar in color to the old section. The new section would have a granite base with limestone trim and brick walls. The cornice would be precast concrete and the roof would be either copper or painted metal. The Chairman asked about windows and was told that they would have dark green metal sash. Mortar would be tinted to match the brick.

Mr. Koubek said that the hotel in the old Willard building would have about 400 rooms. Peacock Alley would run through the ground floor from the Pennsylvania Avenue lobby to F Street. The new portions of the project would have office space on the upper floors and retail on the lower floors with a court facing Pennsylvania Avenue and a pedestrian mall running through to F Street. The court, or plaza, would be designed by EDAW and would include fountains, topiaries, potted palms and seasonal planting urns. Shopfronts and entrances would face these plaza areas, which would be provided with movable French-type metal chairs and tables. The Chairman expressed concern that the colors for the paving might be too rich. The members and the architect agreed that on-site sample mock-ups would be required to make a final determination about materials.

With that qualification, the Commission unanimously approved the project.

EXHIBIT E

November 1, 1983

Dear Mr. Berliner,

The Commission of Fine Arts met with James Rich of your staff and the developer and architect of the Willard Hotel project at our meeting on October 12, 1983. I am happy to report that after careful review of working drawings and samples of proposed materials, the Commission voted unanimously to approve the project. The design not only fulfills the promise of the initial concept of the competition winning scheme but in some respects surpasses it through the careful development of details.

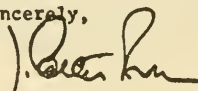
The choices proposed for the materials are also approved, although we request that an actual mockup of both the brick and paving materials be constructed for inspection prior to making this action final. For the exterior walls, it is important that the mortar color match the

brick as closely as possible so as to minimize the importance of the joints. This will help tie it in to the existing hotel which will of course remain painted.

The colors for paving materials suggest a richness that could possibly be excessive. However we will not know until seeing an actual panel on the site. Since the diagonal walkway through the site is such a major element it is certainly worth exercising caution in making the final selection.

In the meantime, we have no objection to the permit being issued for excavation work and construction of the structural frame, with the walls and paving subject to final review prior to their going ahead.

Sincerely,



J. Carter Brown
Chairman

Mr. Henry A. Berliner, Jr.
Chairman
Pennsylvania Avenue Development Corporation
425 13th Street, N.W. - Suite 1148
Washington, D.C. 20004

(Exhibit F, CFA Minutes)

October 12, 1983

✓ D. Smithsonian Institution

CFA 12/OCT/83-6, the Air and Space Museum Restaurant. The Assistant Secretary presented drawings and a model showing a proposal for a new restaurant pavilion to be built on the east terrace of the Air and Space Museum. Philip Reiss from the Smithsonian then introduced Under Secretary Hughes of the Smithsonian who told the members that the museum had very high visitation, between 10 and 12 million visitors per year, and that the existing upper floor restaurant which seats 400 has never been satisfactory. The new facility would serve about 1200 and be on the ground level and have its own full kitchen.

Mr. Hughes then introduced Mr. Gyo Obata, the architect for the new restaurant and the original architect for the museum. Mr. Obata discussed his design for a 40 foot high glass pavilion connected to the main building by a passageway and articulated as a crystal form on the east terrace facing the Capitol. The major exterior material would be the same dark bronze glass used in the main building; exposed trusses and numerous tree plantings would be features of the interior. Mr. Chase asked about the mechanical systems, stating that they would be critical to the finished appearance of so pristine an architectural expression. Mr. Obata agreed that there were some difficult design problems which would be very carefully detailed. He also suggested that some reflective glass may be used to cut down on the cooling loads. The Chairman suggested that reflective, or mirrored, glass would be overly visible particularly from the Capitol and that any such material should be considered very carefully. He also recommended that the pavilion be scaled down as much as possible. With those recommendations, the Commission unanimously approved the concept with the expectation of reviewing the final working drawings and material samples.

November 1, 1983

Dear Mr. Hughes,

The Commission of Fine Arts was happy to meet with you, Mr. Reiss, Ms. Oakes from the Air and Space Museum, and the architect Mr. Obata to consider the proposed restaurant addition to the east terrace. We approve of the way in which the design is developing as a free-standing glass pavilion, connected to the main building by a small neck-like corridor. Since the museum itself is in a sense a series of open and closed pavilions, the new addition should fit very comfortably within the established scheme. We have, however, two concerns about the design as it presently stands:

First, the size. The height is right, but the rest of the structure appears too large. It appears to crowd the terrace which, after all, should be one of the most useful attributes of the new facility when the summer months arrive and large numbers of people can be served. Our feeling is that the interior seating should be reduced, thus shrinking the size of the building envelope, while at the same time providing more space for outdoor dining. We also believe the overall pavilion character will be enhanced since at its present dimensions, the volume looks somewhat squashed. Shortening the horizontal dimensions while retaining the same height could give it a crisper look.

Our second concern involves the reflectivity of the glass. One way to cope with the tremendous heat loads on the south and west sides of the pavilion, and more especially the roof, is through the use of reflective glass. At the same time, however, we must urge caution, since the resulting glare from the sun could pose a serious problem. It is something that quite obviously demands the most careful study by the architect.

We look forward to meeting with you again as the design develops.

Sincerely,



J. Carter Brown
Chairman

Mr. Philip S. Hughes
Under Secretary
Smithsonian Institution
Washington, D.C. 20560

(Exhibit F, CFA Minutes)

31 January 1984

✓2. CFA 31/JAN/84-6, National Air and Space Museum, 7th Street and Independence Avenue, N. W., restaurant addition design development (Previous CFA 12/OCT/83-6). Mrs. Kohler again introduced Mr. Reiss to give the members a progress report on design development for this project. He said he had a preliminary landscaping plan and a glass sample for their inspection. This glass would be used on the sloping sections in the upper part of the structure. It was a tinted

glass with a ceramic filler to control excessive heat and light. The members thought this solution showed promise and suggested further studies, perhaps lightening the tint to avoid a depressing feeling and controlling the heat and light by varying the size and interval of the dots. It was thought that it might be possible to use this type of glass for the entire structure, providing that the dot pattern in the lower section could be such that it would not be obvious to the diners. There were no objections to the landscaping plan, but it was in a very preliminary state, and the members expected to see more detailed drawings later.

EXHIBIT F

February 8, 1984

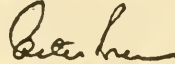
Dear Mr. Reiss:

The Commission of Fine Arts was happy to review with you, at its meeting on 31 January 1984, the Smithsonian's suggestions for controlling excessive heat and light in the proposed all glass restaurant addition to the Air and Space Museum.

Using a dotted ceramic filler in the sloped glass sections in the upper part of the structure seemed to offer a promising solution, and the Commission thought such studies should be continued. It was suggested that the tinting of the glass be kept to a minimum to avoid a depressing effect, assuming that the size and interval of the dot pattern would be the controlling factor in heat and light transmission. It was also suggested that this type of glass might be used for the entire structure, if the dot pattern in the lower section could be such that it would not be obvious to those seated in the restaurant. The Commission looks forward to reviewing further studies as they are ready.

The members also looked at a schematic landscape plan for the restaurant area. There were no objections, but it was expected that a more detailed drawing would be submitted at a later date.

Sincerely,



J. Carter Brown
Chairman

Phillip K. Reiss, Director
Office of Design and Construction
Smithsonian Institution
Washington, D.C. 20560

(Exhibit G, CFA Minutes)

13 December 1983

✓ J. CFA 13/DEC/83-3, National Zoo entranceway and Olmsted Walk modifications, preliminary plans. The Assistant Secretary introduced George Calise, assistant director of the Zoo for support services, who reviewed for the members the recent work at the Zoo, noting that since 1973 thirty million dollars of construction had been completed. He said this submission for modifications to the Olmsted Walk and entrance areas would tie this work together in a logical fashion. He noted that those who had worked on the project included architect Kent Cooper of the

Cooper-Lecky Partnership, Faye Harwell from EDAA, landscape architects, and members of the Zoo staff. He introduced Ms. Harwell who showed a number of slides of the area in question and pointed out present conditions that needed upgrading or more major changes. She said the confusing upper and lower walks should be reworked and areas of erosion controlled; more shade trees should be provided, and where possible, moats should replace fences. At the Connecticut Avenue entrance, she noted that the vehicular entrance needed more vegetation to improve the appearance of the asphalt roadway, and she said it was essential that the narrow sidewalk along the avenue be widened. The width could be increased to 20 feet by the use of retaining walls and a terracing back of the hillside. She said there would be a new Zoo entrance sign but the old stone entrance piers would be retained. The Rock Creek Parkway entrance would also be enhanced, with a new series of ponds supplementing those already existing.

Ms. Harwell commented that Olmsted had laid out the Zoo in 1891. She said very little remains of his work, and only a few fragments of a tree planting plan have been found. She said his plan for the Zoo had been based on the theory that the landscaping should be a backdrop for viewing the animals. It was a picturesque landscape, using open meadow areas and a sinuous walkway through the area. The new plans would provide an almost continuous canopy of trees to give shade and define the walkway laid out along the top of the ridge.

Ms. Harwell then commented on other aspects of the proposed plan. She said there would be information kiosks at entrance points, and the concessions would be concentrated in the Glockenspiel areas with the restaurant left in its present location, near the Rock Creek Parkway entrance. Because of the high visitation level--three million annually--mobile food canteens would be used to accommodate the demand on peak days. Mr. Stone commented that this was an excellent idea, far better than cluttering the Zoo with too many permanent food buildings. Mr. Calise told the members that this work will be done in phases, from 1984-87. He reported also that progress was being made in the construction of new gibbon and penguin exhibits. He was asked about arrangements for parking and said this was being studied and was not yet ready for presentation. The members were all pleased with the preliminary plans and approved them unanimously.

Exhibit G

December 22, 1983

Dear Mr. Calise:

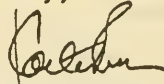
It was a pleasure to meet with you and your consultants on December 13, 1983 and to see the excellent start on the new planning at the National Zoo. You certainly have our endorsement to proceed with the development of these ideas and we look forward to reviewing details as they develop.

The general principle of eliminating some of the eyesore paving and confusing paths as well as surface parking near the Elephant House will enhance the environment and exhibit spaces

considerably. Consolidation of the vending areas to minimize pedestrian path service vehicles also makes sense. Upgrading the appearance and orientation facilities at the entrances is being approached in a sensible way and having a new Penguin Exhibit inside the Connecticut Avenue gates will liven up that area considerably.

In light of the fire on December 15 this also may be a good time for examining the appearance and safety of a number of makeshift temporary structures at the Zoo.

Sincerely,



J. Carter Brown
Chairman

Mr. Gaetano G. Calise, Jr.
3000 Block Connecticut Avenue, N. W.
National Zoological Park
Washington, D. C. 20008

(Exhibit H, CFA Minutes)
May 10, 1983

II. SUBMISSIONS AND REVIEWS

✓ A. Office of the Mayor and several federal agencies; coordinated and presented by the Federal City Council: U. S. International Cultural and Trade Center project.

CFA 10/MAY/83-1, Preliminary Center designs, in southwest urban renewal area between freeway and waterfront, informational presentation. In introducing this project, the Secretary noted that the Federal City Council had been asked to serve as administrator and coordinator of a policy committee, set up to plan development of the project, and consisting of federal and District of Columbia officials as well as civic groups. He then introduced Kenneth Sparks, executive vice president of the Council, to give the members some background information. Mr. Sparks said that in February 1982, the Council's waterfront task force had made two recommendations regarding the southwest waterfront: (1) that the 36 hole golf course at Hains Point be reduced to 18, so that a 50 acre tract along the Washington Channel could be opened up for other recreational uses (this has since been accomplished); and (2) that some use be found for the land along the north side of Maine Avenue, in the vicinity of the Tenth Street Overlook. Mr. Sparks said this land consisted of three sites: the overlook, which has never been successful in attracting people; Parcel 76, to the east, at one time proposed as a site for low income housing; and south of that, a recreational field belonging to Jefferson Junior High School. He said suggestions had been made that the Smithsonian might use the area, or it might become the site for a previously proposed international trade center. It became apparent that there was considerable interest in the latter suggestion among federal and District agencies and civic groups, and with a \$75,000 grant from the Commerce Department, planning began in the summer of 1982. A concept paper was put together, suggesting that there be an

international trade center, a permanent international exhibition area, an education center, and an international bazaar or retail area. By November 1982 feasibility studies had been presented, with the joint venture of Anderson, Notter, Feingold/Mariani & Associates/Bryant and Bryant being selected as consultants to develop a preliminary scheme.

Ted Mariani of Mariani & Associates was then introduced. He showed slides of the area to acquaint the members with the site and the buildings nearby. He noted that Maine Avenue, a wide arterial street, was a negative element in the area, separating the waterfront from the overlook site. He said the avenue would be bridged to bring people easily from the trade center to the fish market and restaurants; access across the Washington Channel to the newly opened recreational area (replacing the golf course) would also be provided. He said the restaurant owners had expressed an interest in the proposed trade center, and he hoped there would be cooperation with them in bringing more vitality to the area, possibly through some activity in the rather bleak restaurant parking areas. Expansion and improvement of the fish market was also suggested.

Mr. Mariani then turned to a model and drawings to discuss his proposal. He said the main entrance to the complex would be at the Tenth Street, or Banneker Overlook, where there would be a plaza and a glass hemisphere structure. The overlook would link the Center with L'Enfant Plaza and the Mall, and it was hoped that the hemisphere and easy pedestrian access would bring a large share of the Mall visitors down to the Center. The bridge over Maine Avenue would occur at this point. West of the plaza would be a performing arts center, and to the east would be the three main buildings of the Center, providing offices as well as trade, conference, and education facilities, a State Department training center, and chancery annexes. These would be located on Parcel 76 and part of the recreation field belonging to Jefferson School. The school would remain, and additional recreation space opened up for it by the demolition of an old warehouse. He said that the massing of the buildings had been considered in the light of causing the least impact on housing, nearby federal buildings, and most important, the waterfront. The buildings were all stepped down toward the water. Mr. Mariani noted that there were several Metro stops nearby and that underground parking for 1900 cars would also be provided. George Notter, of Anderson, Notter, Feingold, was then introduced to discuss further aspects of the design.

After the presentation had been completed, the members commented on the design. Mr. Netsch said his primary concern was the logistics of handling the vast amount of material connected with trade exhibits, as well as the trucks required to bring it in. He recalled similar problems in Chicago and cautioned against cluttering the waterfront with this type of thing. Mr. Mariani said exhibits would be primarily "high tech" in nature rather than heavy agricultural machinery, as an example, and there would be service access off Maine Avenue and a service roadway along the rear of the complex, near the freeway.

Both Mr. Netsch and the Chairman liked the massing and the stepping back from the waterfront, as well as the international character of the activities proposed. Mr. Netsch suggested the glass dome should be provided with some greenery, to strengthen the relationship between it and the Mall. Mr. Chase asked on what basis it was expected that large numbers of people would come from the Mall. Mr. Mariani said they expected the international character, with its foreign exhibits and shops, would be a natural attraction. Also, the glass dome would be visible from the Mall and attract interest, and easy pedestrian access would be provided through L'Enfant Plaza directly to the Center.

Mr. Sparks closed the presentation by saying that the plans would now have to be presented to NCPC, the City Council, and Congress. The Planning Commission would need to amend both the comprehensive and urban renewal plans to permit this development, and he expected they would present the plans to that commission in June. He said both the Commerce and State departments would provide more money for development expenses, and if all went well, groundbreaking could be expected late in 1985.

The Chairman expressed the Commission's general enthusiasm for the project and willingness to work with those involved in it. As the presentation was for information only, no action was taken.

EXHIBIT H

May 25, 1983

Dear Ken,

The Commission thanks you and your consultants for joining us on May 10, 1983 to give an informational presentation on the U.S. International Cultural and Trade Center proposal being coordinated by the Federal City Council. I am sure that gauging by our comments you would agree that the Commission's reaction to the overall design concept was decidedly positive; the largely empty area around the waterfront near the Banneker Overlook would benefit from a greater number of people and buildings and the activities they bring. An international cultural and trade center, of course, has the added bonus of diversity that the Southwest so greatly needs. The schematic architectural solution appears to accommodate the program very well while at the same time respecting and making the most out of this strategic site. The transparent bubble at the Overlook site is a particularly apt illustration of this point.

We realize that a great deal more time and effort will be required to bring this large-scale undertaking to fruition. In the meantime we wish you success and offer our assistance as specific design questions arise. The Commission staff and I shall continue to follow your progress and look forward to hearing from you in the near future.

Sincerely,



J. Carter Brown
Chairman

Mr. Kenneth R. Sparks
Executive Vice President
Federal City Council
1155 15th Street, N.W.
Washington, D.C. 20005

(Exhibit H, CFA Minutes)

May 10, 1983

W. CFA 10/MAY/83-9, Union Station, preliminary development concepts, (previous CFA 13/JUL/82-1). The Assistant Secretary introduced Gary Burch from the D. C. Department of Transportation to discuss this project. Mr. Burch said the District Government would be involved only with structures north of the historic station, and the aim was to complete the parking garage and provide adequate railroad station facilities. He recalled the model shown at the July 1982 meeting, and said since then there had been several meetings with federal agencies and the Federal Railway Administration, and as a result, some changes had been made. New drawings and a model showed the railroad station joined to the historic building by a skylit barrel vault, escalators to the lower track area covered by glass enclosures of a similar shape, and an extension of the bus area behind the parking structure to accommodate tour buses. There was also an additional ramp from H Street for bus use. The members thought the changes constituted an improvement, and they were unanimously approved.

EXHIBIT H

May 25, 1983

Dear Mr. Jones,

The Commission of Fine Arts appreciated a chance to see the design developments for the connection between Union Station and the parking structure to the north. We feel that there has been a definite improvement in the design since our July 1982 review. Our concept approval, however, comes with the strong recommendation that there continue to be coordination between the District of Columbia Government, the Federal Railroad Administration and the National Park Service.

We look forward to reviewing the final design details and material samples as they are ready and wish you well on speeding the project along. In that regard we would suggest care in selecting the light fixtures to be exposed on the top of the parking structure and the tour bus parking area. Our preference is for the use of down lights to avoid visibility from the main Union Station building, and from the adjacent community, because of its proximity to the Capitol.

Sincerely,



J. Carter Brown
Chairman

Mr. Horace G. Jones
Assistant Director
Bureau of Design, Engineering
and Research
613 G Street, N.W.
Washington, D.C. 20001

ADVISORY COUNCIL ON HISTORIC PRESERVATION

[CLERK'S NOTE.—A formal hearing was not held on the fiscal year 1985 budget request for the Advisory Council on Historic Preservation. The following statement was submitted by Alexander Aldrich, Chairman of the Council.]

[The statement follows:]

Mr. Chairman and Members of the Committee, it is a pleasure to present our program and appropriations request for FY 1985. The Council values the support this committee has provided over the years.

The Council is an independent Federal agency created by the National Historic Preservation Act of 1966. The Council is composed of 19 members, including heads of Federal Departments, representatives of State and local government and the preservation community, and non-Federal members appointed by the President. Our FY 1984 appropriation is \$1.546 million; our requested level for 1985 is \$1.168 million. We have two principal duties: to advise the President and the Congress on matters concerning the national historic preservation program and to oversee the process the Congress devised under Section 106 to protect historic properties from needless harm by Federal activities.

Under Section 106, we review about 2,000 projects each year ranging from the construction of reservoirs and highways to the rehabilitation of historic buildings and the issuance of Federal permits. Between 600 and 700 of these projects require consultation to deal with the effects on historic properties, with particular attention to mitigating adverse impacts. This process saves thousands of historic properties each year. It also saves the government money for two reasons. First, because we reach a firm and definitive agreement with the Federal project agency as to treatment of historic properties, there is a clear record of that agency's compliance with the law, and successful legal challenges, halting or delaying worthwhile projects, are almost impossible. Second, our review quite often results in the selection of an alternative for protection of an historic property that costs less than the approach originally proposed by the agency. Our budget justification contains several examples of such instances.

Also important is the Council's statutory duty to make recommendations on policy matters affecting historic preservation. We have shared the results of our important studies with this committee in the past. Our major accomplishment this past year was the completion of a study on the impact of Federal tax laws on historic preservation. Mandated by Section 503 of the National Historic Preservation Act Amendments of 1980, this study concluded that the present incentive system is achieving remarkable results and deserved to be continued with essentially minor improvements.

An important Council activity in the past few years has been our effort to help Federal agencies develop internal systems to deal efficiently with preservation requirements. We have emphasized programmatic consultation with agencies to harmonize the conduct of their principal missions with the policies of the National Historic Preservation Act.

The Council uses several mechanisms to attain this goal:

-Programmatic Memoranda of Agreement, in which the Council, one or more State Historic Preservation Officers, and a Federal agency agree on a

program for treating historic properties in connection with some large or complex Federal activity; this program supersedes application of the regulations and is tailored to the needs of the agency, the particular activities, and the property types in question.

-Counterpart regulations and internal agency procedures, in which the Council and an agency consult to develop an agency's internal preservation policies and system, and embody these in some kind of guidance appropriate to the agency.

-Supplementary guidance, in which the Council publishes nonbinding guidelines interpreting Section 106 for use by agencies and others. In FY 1982, we issued three documents which have greatly aided Federal agencies in meeting their Section 106 responsibilities.

We have found that the resources invested in these efforts reap significant dividends over the long term for both the Council and Federal program agencies. Regrettably, in FY 1983 we were unable to achieve the goals we had set for the year. This has resulted from the ongoing controversy between OMB and the Council on revisions to the Section 106 process. Evidence of the "chilling effect" of the regulation issue is found in a formal decision by the Department of the Interior's Solicitor to avoid Interior execution of programmatic agreements until the issue is resolved. Similarly, OMB rejected the counterpart regulations of the Soil Conservation Service, with which we had concurred as inconsistent with the OMB's view of the Section 106 process.

This programmatic approach to developing preservation systems is the key to sensitive consideration of historic preservation values by Federal agencies in the long run. With proper guidance and tailored procedures, agencies solve their own problems with less need for recourse to the Council. We were gratified to see the Congress recognize this approach during the FY 1984 appropriations process by reinstatement of the funds for these activities.

As set forth in our budget justification, several areas of activity will be reduced in 1985. These include elimination of staff who support Council task forces, coordinate training programs and conduct Council reporting and public information efforts; reduction of staff in the Office of Cultural Resource Preservation resulting in elimination of all programmatic initiatives and cost-effectiveness reviews; and a reduction of Council member activity on task forces and the like. We would limit our activity to helping agencies meet the fundamental requirements of Section 106—the requirement that the Council be afforded a reasonable opportunity to comment on each undertaking that may affect historic properties.

As we approach FY 1985, the Council remains optimistic that its policy initiatives and programmatic improvements will allow us to promote greater efficiency in the administration of the national historic preservation program. Central to these efforts is the revamping of the basic Section 106 review procedure. The past year has been one of frustration and uncertainty, though, in achieving this goal. OMB raised legal concerns about the Council's proposed revisions and in April we agreed to refer the question to the Department of Justice's Office of Legal Council for an opinion. Justice responded in late October with a lengthy opinion which found that certain aspects of the revised regulations exceeded the Council's authority.

The opinion concludes that Congress only conferred regulatory authority on the Council to implement the "reasonable opportunity to comment" part of Section 106 and not the "take into account" requirements placed on Federal agencies regarding the effects of their undertakings on historic properties. Issuance of the opinion prompted the Council to make further revisions, but debate continued on whether these were sufficient to meet legal objections. A subsequent clarification from Justice in December has now cast serious doubts on the Council's ability to carry out the policies it believes are fundamental to an effective Section 106 review.

At present we are seeking ways to implement sound revisions to the Section 106 process within the scope of the Council's authority and exploring the need for further direction, possibly from the President, to ensure that Federal agencies consider historic preservation as the Congress envisioned when the National Historic Preservation Act was passed and subsequently amended. I am hopeful we will have a revised but still effective process in place when we enter FY 1985 so that we will be able to maintain the level of protection afforded historic properties within our reduced budget.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Authorization

Question: On page 4 of your justification, you state that "an authorization of \$2,500,000 per year for FY 1984, 1985 and 1986 has been submitted to OMB and Congress." Since Public Law 97-35 provides authorization for \$2,000,000 in FY 1984 and the actual appropriation will not exceed that amount, why was this higher authorization request submitted?

Answer: Traditionally the Congress has provided the Council with authorizations in 3-year increments. Section 212 of the National Historic Preservation Act authorized appropriations for the Council in fiscal years 1981-1983 at \$2,500,000. Public Law 97-35, the Omnibus Budget Reconciliation Act of 1981, placed a limit on appropriations under the authority of Section 212 for fiscal years 1981-1983. It also included an authorization for FY 1984 at \$2,000,000. During FY 1983, the Council sought an amendment to section 212 to continue its authorization for fiscal years 1984-1986 at \$2,500,000. This request was not acted upon and the authority of P.L. 97-35 was found to be sufficient for the Council's FY 1984 appropriation. The original request is currently being actively considered by our authorizing committees.

Question: Provide a copy of your reauthorization request for the Committee files.

Answer: The information follows:

April 11, 1983

The Vice President
United States Senate
Washington, D.C. 20510

Dear Mr. Vice President:

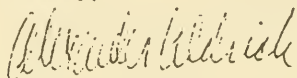
Enclosed is a bill amending the National Historic Preservation Act of 1966, as amended, that will continue the appropriations authorization for the Advisory Council on Historic Preservation. Established in 1966, the Council is an independent Federal agency responsible for advising the President and the Congress on historic preservation matters and commenting to Federal agencies on the effects of their activities upon significant historic properties.

The Council formally resolved at its May 25, 1982, meeting to request the President and the Congress to amend Section 212 of the National Historic Preservation Act of 1966 (16 U.S.C. Section 470t) to continue the appropriations authorization for the Council at a level of \$2.5

million in FY 1984, FY 1985 and FY 1986. Accordingly, the enclosed bill calls for authorization levels of \$2.5 million annually through FY 1986. We recommend that the enclosed bill be referred to the appropriate Committee for consideration, and that it be enacted.

The Council's current authorization expires at the end of fiscal year 1984 and enactment of the enclosed bill will ensure the continuation of the Council in fiscal year 1984 and beyond. Provision has been made in Section 1402 of P.L. 97-35 for a \$2.0 million authorization in FY 1984. We have included an FY 1984 authorization in our proposal so that the National Historic Preservation Act would be amended to cover the normal three year authorization cycle for the Council.

Sincerely,



Alexander Aldrich
Chairman

BILL

To amend the Act of October 15, 1966 (80 Stat. 915), as amended, establishing a program for the preservation of additional historic property throughout the Nation, and for other purposes.

BE IT ENACTED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the Act of October 15, 1966 (80 Stat. 915), as amended (16 U.S.C. Section 470 et. seq.) is further amended as follows:

- (a) Section 212(a) is amended by deleting the last sentence and inserting in lieu thereof the sentence "There are authorized to be appropriated not to exceed \$2,500,000 in each fiscal year 1984, 1985, and 1986."

Base Adjustment

Question: On page 8 you state that \$32,000 will be needed in FY 1985 to cover the full-year cost of the FY 1984 pay increase. Why would you need \$30,000 in 1984 (100% of 3/4 of FY 1984) but only \$32,000 for all of FY 1985?

Answer: OMB directed that the pay raise computation be based on the current level of full-time equivalent positions (36 FTE) for 1984, and on the OMB budget allowance of 25 FTE for 1985. If we were to use the current level for 1985 the pay raise requirement would have been \$43,000 instead of \$32,000.

Workload

Question. In FY 1985 you plan to "screen" an additional 1,080 projects but "review" 1,080 less projects. What effect will this have on the quality of

staff work? Will you still have time and resources to review those projects that were set aside should the need arise?

Answer. In essence, this change reflects a transfer of 1,080 projects from the "Reviewed" category to the "Screened" category, and means that about 1,080 projects that now receive some level of Council review will not receive such review in FY1985. It is expected that the great bulk of these projects will be projects on which, today, "advice" is offered (Line 4a, Table I). In other words, we expect to try to maintain our current level of review on those projects formally submitted to us by agencies for substantial review, while essentially eliminating less formal review and provision of advice. A major effect on the quality of staff work will be that our staff will be dealing predominantly with projects which have advanced to a point where there are clear cut conflicts with historic properties, rather than with the wider range of projects on which advice is currently sought and given to avoid such conflicts from arising. This will reduce our opportunity to provide input to the early stages of project planning, which we have found to be in the best interests of both historic preservation and efficient Federal project planning, and to explore creative new solutions to preservation problems. In answer to the second question, if a significant percentage of the projects that today would receive Council advice but in FY1985 will be "screened" subsequently arise as cases for formal review, we will not have the resources to review them, particularly if the lack of early Council advice results, as we would anticipate, in less orderly preservation planning by the project agencies.

Question. You plan to keep your "substantial review" of the projects up in 1985 but "advice offered" is zero. Will this direction increase the potential of damage to historical properties? If yes, can you cite examples where this has happened in the past?

Answer. Yes, we anticipate that this will result in increased potential damage as well as increased potential costs. A current example of the sort of damage that may occur is the case of Baker's Port, a proposed port facility near Corpus Christi, Texas that requires a permit from the Corps of Engineers and will destroy an important archeological site. The case has not yet been formally submitted to the Council, but working with the Corps of Engineers, the permit applicant, the State Historic Preservation Officer, and the National Park Service, the Council has been able to help all concerned agree to a program of archeological data recovery that will allow both the project and the formal Section 106 review to move forward smoothly. Without Council participation, it is doubtful whether this solution would have been reached. Similarly in the case of the Highgate Falls Dam in Vermont, a local project licensed by the Federal Energy Regulatory Commission, the Council worked with the local sponsor, FERC, and the State Historic Preservation Officer to work out a reasonable program of preservation and data recovery before the project ever came to the Council for review. When we were asked to participate informally in review of the project, the situation appeared very nearly hopeless, with anticipated archeological costs vastly exceeding what the local sponsor could afford, and no apparent solutions other than to either destroy the archeological sites or abandon the project. The case of Interstate 195/95 in New Jersey, cited in Table 2 of our justification, was also a case in which the Council was substantially involved through the provision of informal advice before its comments were officially sought. In the case of the Broadway Project, an urban development project in Louisville, Kentucky, the Council at the request of the City worked with the City, State Historic Preservation Officer and developer in the early stages of project design, before the project was submitted for formal review. The result was a project design that had minimum impact on historic properties and was processed by the Council as a "no adverse effect" determination. Many similar cases can be cited. On the other hand, projects are regularly brought to us for formal review that could have benefitted from early informal Council involvement. The development of "Block D" in Cincinnati, Ohio, for example, supported by an Urban Development Action Grant, came to the Council after binding arrangements had already been made for the placement of skywalks that damage the architectural integrity of the historic Netherlands Hilton Hotel. Formal consultation under the Council's regulations was unsuccessful in

finding a solution to this problem, which could have been solved had the Council been able to provide earlier advice, before certain design decisions had become fixed. The Postal Service at Yankton, South Dakota and the Army at Watervliet Arsenal in New York State, among others, have acquired and begun installation of new windows in historic buildings in ways that contravened the Secretary of the Interior's preservation standards and violated the building's historic integrity. This resulted in controversy that forced the projects to be halted and redesigned, problems that could have been avoided had the Council been contacted for early, informal advice. What these cases illustrate is the value of the longstanding Council practice to assist applicants and agencies in proper treatment of historic properties during the early stages of their planning, when choices are broadest. Preservation benefits, controversy diminishes and formal reviews are expedited.

Question. Your planned "post-agreement review" activity for FY 1985 is decreased from 70 in FY 1984 to 10 in FY 1985. Why is this an important activity?

Answer. This is an important activity for two major reasons:

1. By establishing Memoranda of Agreement and similar documents that provide for post-agreement review, it is possible for the Council to review projects earlier in planning than would otherwise be the case. For example, a project may be presented while plans are still in a very conceptual form; the Council can agree that, if certain conditions are met, it will have little serious impact on historic properties, while putting off for "post-agreement review" the examination of detailed plans and specifications. Such details may be of extreme importance, however, if the project is really to be made compatible with its historic-environment. For example, in the case of the Charleston Convention Center in Charleston, South Carolina, an agreement was reached about the basic form of the project, but the initial designs produced by the developer's architect were such that they would have been seriously incompatible with the surrounding historic district. Only through extensive, detailed post-agreement review, which provided a forum to air local government and citizen concerns, were the problems resolved.

In short, it is in post-agreement review that many important "fine tuning" adjustments are made in projects to make them compatible with their historic environments. Without post-agreement review, either such adjustments would not be made, with resulting damage to historic properties, or the Council would have to put off its formal review until later in the planning process when all details were available. Were this to happen, Council review would occur only after major investments had been made in detailed project plans, and major problems would be impossible to resolve.

2. It is in the context of post-agreement review that much cost-effectiveness review takes place. For example, the cost savings effected for the Vista Hills project in Texas and the Social Security Administration Building in New York, cited in Table 2, were the results of post-agreement review, and the continuing review of Army archeological expenditures at the National Training Center and Pinyon Canyon, also in Table 2, are post-agreement reviews.

Question. What will be the impact of this reduction?

Answer. Reducing the level of post-agreement review will have at least three major impacts:

1. Much review of detailed plans and specifications, archeological data recovery projects, etc., will be left to State Historic Preservation Officers.

2. There will be a natural tendency to minimize the use of agreements that provide for post-agreement review, which would tend to delay execution of agreements and push Council review later in the project planning process.

3. Projects not subjected to post-agreement review but that should be will tend to be less sensitive to historic values than would be desirable, and some will be more costly than necessary.

Section 106 reviews

Question: The objective of the Council Task Force on Regulations Review was to restructure the Section 106 reviews to increase flexibility and efficiency. Due to conflicts with OMB and the Department of Justice, you have been operating under interim guidelines which suspend some sections of the existing regulations. How have these interim guidelines and suspensions been working?

Answer: In July 1982, the Council suspended three provisions in its existing Section 106 regulations (36 CFR Part 800). The Council took this action because its regulatory reform efforts had identified the provisions as burdensome and the prognosis for more comprehensive reforms being cleared by OMB was poor. Complementing the suspensions were several guidance documents. Since that time, we have been pleased to note a reduction in both time and paperwork required to comply with Section 106 without discernible decrease in the consideration given historic properties.

It is, in fact, our belief that the suspensions and the issuance of the associated guidance material has improved the consideration given historic properties by making it easier for agencies to comply effectively with the regulations, thus decreasing the temptation toward noncompliance. A marked increase in our caseload last year suggests that if anything, more agencies are seeking the Council's comments more often than occurred before the suspensions.

A significant contributor to improved efficiency in Council review of Section 106 cases has been the suspension of a section of the regulations that gave detailed and rather restrictive instructions concerning the preparation of Memoranda of Agreement (MOAs). A companion guidance document now provides guidelines for MOA preparation, and agencies are encouraged to work out MOAs with State Historic Preservation Officers in routine cases, and to submit these in final form to the Council. This change has decreased the time required for Council processing of routine cases by about 10%. An even more significant improvement overall has arisen from suspension of a provision requiring that, where an agency and a State Historic Preservation Officer agree that a property subject to impact by a project is eligible for the National Register, they must obtain the concurrence of the Keeper of the National Register in the Department of the Interior before the Council's comments can be obtained. The requirement to seek the opinion of the Keeper as to the eligibility of properties for the National Register was identified by several agencies as the biggest impediment to efficient compliance with Section 106. Although Interior has not suspended the counterpart sections of its regulations, so it is still technically necessary to obtain the Keeper's final opinion to comply with Interior requirements, agencies are no longer prohibited from seeking the Council's comments until the Keeper has acted. We have no figures on the amount of time saved as a result of this suspension, since the time savings occur before an agency seeks the Council's comments, but we are advised by agencies and State Historic Preservation Officers that it is quite significant.

Question: How long will OMB and the Department of Justice allow you to continue to operate under these interim measures?

Answer: While the Justice Department has concluded that our current regulations exceed the Council's authority, this view is not universally held. The Council, the House Interior and Insular Affairs Committee and others have expressed grave reservations over the opinion. Accordingly, no action has been taken by the Council to conform the regulations to the Justice opinion. Despite the opinion of Justice and its apparent acceptance by OMB, the current regulations remain in effect and are legally binding on Federal agencies. Whether OMB or Justice will seek to compel the Council to take some action on the regulations is impossible to predict. We note that the Corps of Engineers has proposed new regulations which

conform to the Justice Opinion and conflict with our current regulations. These are not yet final and we anticipate conveying our objections to the Corps.

Question: What is the next step to resolve this conflict?

Answer: We have attempted various ways to amend the regulations to meet Justice's legal objections while retaining the important elements of the current process - a clear system for agency identification and evaluation of historic properties and assessment of effects; an active role for State Historic Preservation Officers and the public; and a conflict resolution process that results in binding agreements. We have considered achieving this through regulation and a proposed Executive Order. However, we have found insufficient support for any proposal that we believe could adequately maintain the current level of protection for historic properties.

Question: What is the status of the proposed Section 106 regulations?

Answer: We have effectively suspended the development of any revised regulations and are awaiting further clarification from the Congress on the question of the Council's regulatory authority.

Question. Your December 29, 1983, letter to OMB Director Stockman states that a Department of Justice letter "indicates that Federal agencies are obligated to forward all undertakings to the Council for comment." Can you provide a copy of this letter to the Committee? Has this interpretation been verified?

Answer. A copy of the Department of Justice letter is attached. Neither the Department of Justice nor OMB has challenged our interpretation of its language, which we believe is quite clear.

John M. Fowler
General Counsel
Advisory Council on Historic
Preservation
The Old Post Office Building
1100 Pennsylvania Ave., N.W., #809
Washington, D.C. 20004

DEC 12 1983

Michael J. Horowitz
Counsel to the Director
Office of Management and Budget
Executive Office of the President
Old Executive Office Building
Washington, D.C. 20503

Gentlemen:

In response to Mr. Horowitz' letter to us of December 6, 1983, we have reviewed the draft of revised § 106 ^{1/} regulations dated December 2, 1983, which we understand will be considered by the Advisory Council at its December 12-13 meeting. In doing so, we have considered the material presented in Mr. Fowler's responsive letter to us of December 7, 1983.

These regulations have been revised in response to the October 28, 1983 opinion of this Office concerning the scope of rulemaking authority of the Advisory Council, and the

^{1/} Section 106 of the National Historic Preservation Act ("the Act"), Pub. L. 89-665, 80 Stat. 917 (1966), codified at 16 U.S.C. § 470f, as amended by Pub. L. 94-422, Title II, § 201(3), 90 Stat. 1320 (1976), ("§ 106").

participation of members of the Advisory Council not appointed by the President in rulemaking matters. We have been asked to review these newly revised § 106 regulations because of the concerns of the Office of Management and Budget that the revisions do not completely remedy the deficiencies in the Advisory Council's current § 106 regulations, and in the then-pending proposed revisions to those regulations, which were identified in our opinion. OMB and the Advisory Council apparently disagree as to the sufficiency of the most recent revisions of the regulations, perhaps based upon a disagreement over the correct interpretation of our opinion.

Because of time constraints, we have not had an opportunity to review the newly revised § 106 regulations in depth. Nevertheless, to facilitate the Advisory Council's consideration of the revised regulations at its December 12-13 meeting, we express our preliminary view that, if certain provisions are properly clarified, the newly revised regulations would be within the Advisory Council's authority. We set forth in the following paragraphs the provisions that seem to us, on this expedited review, to require clarification. Should the Advisory Council choose to proceed with the revised regulations, we would of course be happy to conduct a more thorough review of them.

The ambiguous provisions about which we are concerned in the revised draft all involve the ability of an agency to obtain the Advisory Council's comments on an undertaking within a time certain. If, as Mr. Fowler seems to state in his letter of December 7, 1983, an agency is entirely free under the draft regulations to request the Advisory Council's comments directly rather than participate in one or more aspects of the "voluntary consultation process" outlined in § 800.4(d) and (e) of the draft regulations, and if the Advisory Council is required to give its comments on undertakings submitted directly to it by an agency under § 800.4(f) within a definite period of time, then the major concerns expressed in our opinion will have been met. There are a number of provisions in the regulations which strike us as requiring clarification in this regard, however, and we strongly recommend that they be amended before the draft regulations are submitted to the Advisory Council for action.

At the outset, the regulations should make clear that an agency may seek the Advisory Council's comments on one of its undertakings at any time, whether or not it has followed the procedure set forth in § 800.4(a) for determining if the undertaking affects historic properties. As we noted in our opinion, § 106 appears to require an agency to give the Advisory Council a reasonable opportunity to comment on all of its undertakings, without regard to their effect on historic properties. The Advisory Council is free to limit its consideration of agency undertakings to those it believes will have a certain effect on historic properties, and to establish a procedure for its own use in determining whether there is such an effect and therefore whether it wishes to comment. It does not have statutory authority, though, to create a procedure which effectively blocks an agency from seeking the Advisory Council's comments. Thus, an agency cannot be obliged to determine effect, in accordance with § 800.4(a) or otherwise, as a precondition of submitting the undertaking to the Advisory Council for its comments. We recommend, therefore, that the regulations make clear that an agency is not required to embark upon the procedure set forth in § 800.4(a) before seeking the Advisory Council's comments.

We turn now to the three procedures specified in § 800.4 of the regulations by which an agency may satisfy its statutory obligation to afford the Advisory Council an opportunity

to comment. The regulations should make clear that an agency official is entirely free in the first instance, and at any time thereafter, to approach the Advisory Council directly for its comments under § 800.4(f) to satisfy its obligations under § 106, rather than implement the procedures provided in either § 800.4(d) or § 800.4(e). We are concerned that the final paragraph in § 800.4(c)(1) might be construed to limit an agency's freedom in this regard to situations in which "the Agency Official determines there is a clear need for [direct Advisory Council] involvement because of substantive disagreement or timing considerations." Our understanding of the intent of the regulations, based on Mr. Fowler's December 7 letter, is to make an agency's decision to pursue the negotiation process in § 800.4(d) or (e) entirely voluntary. Furthermore, we believe the Advisory Council cannot legally restrict an agency's options in the way which might be inferred from the final paragraph of § 800.4(c)(1). We therefore strongly recommend that this paragraph be deleted, or that it be amended to make clear that the Advisory Council's policy is merely to encourage agencies to pursue the negotiation process set forth in § 800.4(d) and (e), and that no adverse inferences should be drawn from an agency's decision to ask the Advisory Council directly for its comments under § 800.4(f).

Similarly, we recommend that the regulations be revised to make clear that an agency which initially decides voluntarily to pursue the process set forth in § 800.4(d) or (e) may at any time abandon that process for any reason and approach the Advisory Council directly for its comments. As presently drafted, § 800.4(d)(6) and § 800.4(e)(8) might be construed to require that certain determinations be made by an agency official before the voluntarily elected process could be abandoned. We are particularly concerned that § 800.4(e)(8) appears to give only the Executive Director of the Advisory Council the option of bringing a matter directly to the Advisory Council for its comments when a course of action to treat effects cannot be agreed upon in the consultation process. Once again, it should be made plain in these sections, and perhaps elsewhere, that an agency official may at any time, and for any reason, bring a matter directly to the Advisory Council for its comments.

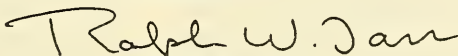
Finally, the revised draft should make very clear that, once an undertaking has been submitted to it by an agency with the specified documentation, the Advisory Council must render its comments within a 60-day period. ^{2/} As presently drafted, § 800.4(f)(4) is somewhat ambiguous in this regard. ^{3/} We strongly recommend that the regulations be revised to eliminate all uncertainty respecting the Advisory Council's obligation to render its comments, and thus allow an agency to proceed with its undertaking, at the conclusion of the 60-day period specified in § 800.4(f) (3) and (4).

^{2/} The total period would be 60 days, as we read the draft revised regulations, because the Chairman of the Advisory Council has 15 days under § 800.4(f)(1) to determine whether the Advisory Council will consider the undertaking at a meeting. Section 800.4(f)(3) requires that the Advisory Council render its comments within 45 days after that determination, unless the agency voluntarily agrees to extend this period.

^{3/} It is not clear what effect the precatory word "may" in the first sentence of § 800.4(f)(4), referring to the Advisory Council's transmission of comments in the event of a "no meeting" determination, is intended to have. However, when both sentences of that section are read together, we understand that

Ambiguous provisions in the regulation, such as the ones we have noted above, may well invite wasteful litigation over an agency's determination to seek the Advisory Council's comments in one manner rather than another. We therefore urge that these provisions, as well as any other questionable provisions which may have escaped our rapid review, and of which you are or may become aware, be redrafted before the Advisory Council is asked to take any action on the revised regulations. Again, should the Advisory Council choose to proceed with these revised regulations, we would be happy to review them in greater detail.

Sincerely,



Ralph W. Tarr
Deputy Assistant Attorney General
Office of Legal Counsel

Question. Is the Army Corps of Engineers actually sending all of their undertakings to you for comment?

Answer. At present, the Army Corps of Engineers is, to the best of our knowledge, complying with our existing regulations with respect to all its undertakings. Accordingly, only projects affecting historic properties are submitted to the Council for review. However, in the Federal Register of May 4, 1984, (49 F.R. 19036), the Corps has proposed formally to institute a new process of simply providing the Council with notice of pending permit actions which may affect designated historic properties and permitting the Council to determine which activities may do damage to historic properties and therefore warrant Council review. This Council must then notify the Corps of its desire to comment, which must be rendered within 30 days. This proposal, to which we have objected prior to publication, eliminates the current screening process and is based on the opinion of the Department of Justice's Office of Legal Counsel.

Question. What additional staffing and funding would be necessary to carry out the Department of Justice interpretation?

Answer. It is very difficult to determine what increases might be needed in a regulatory scheme implementing the Justice interpretation. If we were confronted with a situation in which agencies simply filed project descriptions with the Council and expected the Council to determine what impacts would occur, and if the Council attempted to respond to such a situation in a responsible manner, the cost in staff and time would be astronomical relative to our present budget. To the extent that the Council could continue to require some of the "preconditions" to Council review that Justice and OMB find objectionable, the cost increases would be less. If the proposed Corps regulations became a government-wide standard, the actual impact would be somewhere between these two extremes. As a rough, "ballpark" estimate for early planning purposes only, a doubling or tripling of the Council's current budget and staff to maintain a level of review that would protect some properties is probably a conservative guess.

an agency will, upon passage of 45 days after the "no meeting" determination, be deemed to have satisfied its obligations under § 106 to afford the Advisory Council a reasonable opportunity to comment, whether or not the Advisory Council in fact chooses to comment. Whether or not the Advisory Council decides to consider an undertaking at a meeting, it should be clear under both § 800.4(f)(3) and (f)(4) that an agency will have to wait no longer than 45 days before proceeding with its undertaking.

Question. Will another FY 1984 supplemental need to be submitted? Will a FY 1985 budget amendment need to be submitted?

Answer. Since the Council at this point has not modified the regulations to meet the Justice/OMB concerns and has maintained the critical elements of the existing Section 106 process, we do not anticipate the need for a supplemental or amendment for this purpose. If the Corps model of regulations becomes widespread and withstands anticipated court challenges, substantial further funding will be necessary.

Question. Why does the Federal Highway Administration object to the existing review system (p. 20)?

Answer. The Federal Highway administration has a long history as a critic of environmental and historic preservation statutes and regulations, perhaps arising from the substantial special regulatory burdens laid exclusively on Transportation agencies by the Department of Transportation Act of 1966 itself. FHWA compliance with Section 106 in particular is complicated by the partially overlapping requirements of Section 4(f) of the DOT Act, requiring that the use of historic properties be avoided if prudent and feasible alternatives exist to such use. We would note that FHWA has sought unsuccessfully to amend Section 4(f) to eliminate coverage of historic properties. In the attempt, they cited the adequacy of Section 106 to protect historic properties! We believe an attitude exists in certain parts of Federal agencies to resist environmental advice. In this regard, we would draw your attention to an article written by one of our recently appointed citizen members on this subject, which was reprinted in the Congressional Record. The information follows:

HISTORIC PRESERVATION

HON. JOHN BRYANT

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

Thursday, March 15, 1984

● Mr. BRYANT. Mr. Speaker, I recently received and was greatly impressed by an article by Mr. Clifton Caldwell, president of the Historic Preservation League of Dallas, about the recommendations of the President's private sector survey on cost control in the so-called "Grace Report" and the effort to preserve noteworthy elements of our history.

The article, which was prepared for "Historic Dallas," the Historic Preservation League's newsletter, deserves the attention and consideration of Members of the Congress.

The text of this sensible analysis follows:

NOTES FROM THE ADVISORY COUNCIL ON HISTORIC PRESERVATION (By Clifton Caldwell)

President Ronald Reagan is deregulating the federal government, cutting red tape for the citizen and eliminating unnecessary government controls. Hooray!

In the field of historic preservation, however, we run into a curious anomaly: The National Historic Preservation Act of 1966 established the Advisory Council on Historic Preservation (ACHP) to review and to advise the President and Congress on federally-assisted projects which might affect structures, sites, or areas that are deemed

eligible for the National Register of Historic Places. Therefore, the ACHP is a restraint on federal agencies; i.e., a restraint on those who need it the most.

Now certain federal agencies are attempting to apply the deregulation effort to the ACHP; they, like the people, don't want to be controlled. The recently released "President's Private Sector Survey on Cost Control," commonly called the "Grace Report," claims that the ACHP costs the government \$40 million annually, \$132.4 million over three years. I have reviewed some of the documentation concerning the ACHP which was considered by the Grace Commission and found it to heavily favor the material supplied by the larger federal agencies. In this material were 100 "horror cases," in which the ACHP is charged with creating costly delays in federal projects. A close study of these cases reveals that out of 100 cases, the ACHP was culpable in only four. Curiously enough, many projects resolved by alternate solutions saved the taxpayers many millions of dollars, but this documentation was not presented to the Grace Commission.

The federal agencies probably do spend \$40 million a year trying to defeat historic preservation efforts. I was recently involved in two cases which are indicative of the problem.

In Mobile, Alabama, the Federal Highway Administration was determined to build a highrise highway separating a historic area of the city and the historic waterfront district. In San Francisco, funds are currently being sought to dismantle a similar elevated roadway called the Embarcadero Freeway, and the elevated JFK Expressway in Boston is also being considered for removal if Mr. Tip O'Neill can find the money. So the

ACEHP, in the Mobile case, probably has cost the Federal Highway Administration many thousands of dollars telling them what they would have heard had they listened to the people of Mobile: Don't build the highway through our precious historic heritage.

The second case, in Charleston, South Carolina, involved the desire of the General Services Administration (GSA) to build a new federal courthouse in close proximity to numerous buildings that were built in the 1700s. These buildings are very fragile and could not stand vibrations from the pile driving that would be necessary for construction of the new facility. Several of the seventeen properties in Charleston that are National Historic Landmarks stand within one block of the proposed building, including one of the oldest churches in the U.S.

The problem in Charleston is not whether they need the extra space, as they definitely do, but rather why the GSA spent thousands upon thousands of dollars engineering and designing before learning that no one wanted the building where the GSA

planned to put it. So the ACEHP is blamed for costing the GSA thousands of dollars.

At the end of February, a meeting will be held in Atlanta for the ACEHP to investigate another grandiose project of the federal government—the building of a four-lane parkway to enable the scholars to travel between Emory University and Jimmy Carter's future presidential library with minimum distractions. This highway will pass through a historic portion of Atlanta, destroying an early urban neighborhood design of Frederick Law Olmstead. If our recommendations are negative, possibly the highway won't be built, possibly the library will have to be redesigned for another site, possibly we will cost the government another \$40 million, possibly someone wasn't listening to the wishes of the people of Atlanta earlier.

The Administration wants to get the government off the backs of the people. Would the country also be well served by getting the people, in the form of the ACEHP, off the backs of the government? What do you think?

Personnel Summary

Question. In your personnel summary for the salary and expense account, you show the average grade to be a GS-11 and average salary to be \$32,217. The detail of permanent positions, however, would indicate the average grade to be closer to a GS-10 and average GS salary to be about \$24,000. Can you explain this apparent discrepancy?

Answer: The personnel summary, prepared for the President's budget, contains the average grade and average salary of full-time permanent employees in accordance with OMB guidance. Supplementary information provided to the Appropriations Committees as the "detail of permanent positions" shows total employees, both permanent and temporary positions. By their nature Temporary positions tend to be lower graded than permanent positions.

1984 Supplemental

Question: Your request for \$54,000 to cover your moving expenses into the Old Post Office was denied by OMB. What was the basis for their denial?

Answer: Our supplemental budget request was for increased space costs of the Old Post Office, not for moving expenses. OMB denied the request because the 1984 appropriation of \$1,546,000, or current level, exceeded the President's budget allowance of \$1,051,000. No consideration was given to the actual GSA rental charge of \$170,000 per year, or \$54,000 more than budgeted.

Question: How are you covering these expenses? What 1984 activities are you having to delay to cover this expense?

Answer: We are trying to absorb the added cost by reducing program activities and cutting travel. We have delayed filling several staff vacancies in Cultural Resource Preservation, we are keeping printing and supply costs to the minimum, we have imposed restrictions on travel, and we are considering the cancellation of one regularly scheduled Council meeting.

NATIONAL CAPITAL PLANNING COMMISSION

[CLERK'S NOTE.—A formal hearing was not held on the fiscal year 1985 budget request for the National Capital Planning Commission. The following statement was submitted by Glen T. Urquhart, Chairman of the Commission.]

[The statement follows:]

Mr. Chairman and members of the Committee, I am again very pleased to testify, this time on behalf of the FY 1985 appropriations estimate for the National Capital Planning Commission. The budget justification document before you reflects the Commission's best efforts to carry out its role under the National Capital Planning Act of 1952, as amended, as the central planning agency for the Federal Government in the National Capital Region. We are confident that our package of programs for FY 1985 will continue to fairly represent and protect the Federal interest, as well as to promote cooperation between the Federal Government and various jurisdictions of the Region.

The National Capital Region as defined by the act is the District of Columbia, the two surrounding Maryland counties, the four surrounding Virginia counties, and all cities within the limits of such counties. The region contains about 115,000 acres of Federal land, with some 169 million sq. ft. of leased and owned floor space housing 410,000 Federal employees. Planning for the effective functioning of the Federal government in terms of distribution of its employees, optimum accommodations, and movement of goods and services and the complementary meshing of the Federal interests with local goals are but a few of NCPC's responsibilities.

Our Planning Act has as its purpose the securing of comprehensive planning for the physical development of the National Capital. The Commission is charged with preparing and adopting Federal elements and reviewing, for Federal interest, District of Columbia elements of the Comprehensive Plan for the National Capital.

Recent Commission comprehensive planning efforts have resulted in the adoption of several more elements of the Comprehensive Plan for the National Capital. Of the eight Federal elements, seven have now been adopted. We are currently preparing and are anticipating Commission adoption of a Visitors and Tourists element to be completed in FY 1984. We have also prepared a revision to the Foreign Missions and International Agencies element of the Comprehensive Plan to permit conformance to the Foreign Missions Act of 1982 which was adopted by the Commission on December 1, 1983.

We are also charged with the ongoing responsibility of reviewing capital improvements program requests of Federal agencies within the Region. The amount of such requests this year exceeds \$2 billion. In addition, the Commission performs Federal interest reviews of the capital improvements programs of 16 state and local agencies and governments containing some 2,700 individual projects. Numerous master and project plans and plan modifications for Federal installations were also reviewed along with plans for the development of parks, parkways, and other open space systems in the

National Capital, as well as District of Columbia master plans and site and building plans. 1/

The Commission also has in-lieu-of-zoning authority for Federal projects within the District of Columbia. An example of a project approved under this authority is the Smithsonian Institution's South Quadrangle development.

The Commission's FY 1985 budget request reflects the same level of personnel staffing as in FY 1984. Over the last eight years the Commission's staff has been steadily reduced from 64 full-time permanent employees to 46. Given the variety of skills necessary on the staff to perform Commission business and recognizing that in certain technical specialities we are already down to one employee per discipline (environmental planning, historic preservation, etc.), we respectfully request no further cuts in staff levels at this time.

The Commission is requesting \$2,765,000 for FY 1985, which includes the remainder of the GSA rent assessment that was to go into effect in FY 1984, but which was limited by Congress to a 14% increase in that year, and 2 initiatives specifically necessary for FY 1985, in addition to normal ongoing work programs.

First, we request a raise in Appointive Commission Members' salaries from \$100 per day to the effective daily rate paid for Executive Level IV employees (approximately \$268, using current salary levels). This would be the first raise in pay for them since 1952.

Secondly, above our regular printing budget, we need \$25,000 for the printing of the final Comprehensive Plan document with all 8 Federal elements, plus the local elements prepared by the District of Columbia (Printing costs in this budget request reflect only the NCPD contribution). Since this will be a joint effort, the District of Columbia will contribute matching funds required for the total printing effort.

Finally, as you can see from the budget justification document itself we are trying to trim operating costs in the areas of telephone communications, incidental GSA services, and supplies and materials consumption.

Mr. Chairman, this concludes my prepared remarks. My staff and I will be happy to answer any questions you or other Members of the subcommittee may have.

BIOGRAPHY OF GLEN T. URQUHART

In March 1983 Glen T. Urquhart was appointed to the National Capital Planning Commission, and designated as its Chairman by President Reagan. He succeeded Helen M. Scharf as Chairman, and T. Eugene Smith as a member of the Commission.

Mr. Urquhart is President of Walker, Urquhart & Company, Inc. and of Glen Urquhart & Associates. The firms engage in financial and real estate

1/ During Fiscal Year 1983, as an example, the Commission reviewed 12 master plans and master plan modifications for Federal installations, 74 Federal site and building plans and plans for developments in the parks, parkways, and other open space in the National Capital, 6 District of Columbia master plans and site building plans, 4 street and alley closings, and 2 transfers of jurisdictions. Sixty-eight applications for Federal grants involving land or water use in the Region also were reviewed to determine potential impacts on Federal interests. At the request of the District of Columbia Government, the Commission prepared and adopted 6 modifications to urban renewal plans for various project areas.

consulting and development, as well as other investments. In earlier activities, he was Vice President for Planning for the Chantilly Corporation and its manufacturing subsidiaries and extensive agri-business. At Victor Wilburn & Associates, he served as Finance and Management Officer, concerned with the planning, design and construction management of both commercial and public projects. The latter included the Washington Metropolitan Area Transit Authority, the Redevelopment Land Agency, the U.S. Postal Service, the former U.S. Health, Education and Welfare Department, the Corps of Engineers and AMIRAK.

Mr. Urquhart serves on the Advisory Board of the American Security Council. He is a founding member of the Center for International Security Studies, a member of the Committee for Dulles (Airport), the American Waterworks Association and a council member of the U.S. Global Strategy Council.

Mr. Urquhart is a native of Pittsburgh, Pa., a graduate of the University of Virginia, and an instrument-rated pilot. He is married, with four children and a resident of McLean, Virginia.

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Appointive Commission Members

Question: You are proposing to raise Appointive Commission Member's from \$100 per day to approximately \$266 per day. Why did you choose Executive Level IV as the level to compensate the Members?

Answer: Executive Level IV was selected because compensation at that level is the same as, or exceeds the SES salaries of the staff Executive Director and two staff Associate Directors of the Commission. Since Executive Level V pays some \$3,000 less than Executive Level IV and top SES salaries, we would have Presidential and Mayoral appointees still compensated at levels below Commission staff Directors. These appointees actually are only compensated for one or two days a month so the cost difference between Executive Level IV and V is negligible (approximately \$13.35 per day).

Question: What is the status of this proposed legislation?

Answer: H.R. 5224 was introduced on March 22, 1984. The bill would amend the original Planning Act to increase the appointive members rate from \$100 a day to an Executive Level V rate. On March 30, 1984, a similar Bill, S.2506, was introduced in the Senate, except that the Commission's recommendation of Executive Level IV was selected.

Question: On page 7 of your justification you state that none of the FY 1985 estimates will require additional authorization. Aren't the funds needed to implement the increased compensation to Commission Members included in the budget?

Answer: The funds necessary for the increased compensation to Commission Members are included in the budget.

Question: Won't it require additional authorization to implement this increase?

Answer: The Bill which is currently being introduced in the House and Senate, if passed, will serve as the basis for authorization of the increased compensation.

Joint Comprehensive Plan

Question: It would appear from your justification that all of the Federal elements and most of the other elements of the Joint Comprehensive Plan will be completed in FY 1984. What is the continued workload on the Plan?

Answer: The Federal elements of the Comprehensive plan will consist of general policy elements and general development plan elements. The general policy elements will be completed in 1984 and will set the policy framework for the general development plan elements which will address specific planning problems in areas where federal facilities are concentrated.

Question: How will the Commission and staff workload change in FY 1985?

Answer: In FY 1985 the Commission will initiate the preparation of a general development plan for the central monumental area of the National Capital which includes the Mall, the Federal Triangle, West Potomac Park, Southwest Federal Center, Arlington Cemetery, and the Pentagon Area. Staff workload in this effort will shift from formulation of the basic elements to work on the general development plan focusing on specific planning problems. The workload will remain substantially the same.

NCPC Exhibit

Question: Reference is made in numerous places in your justification to work on the NCPC exhibit. What is this exhibit?

Answer: The Exhibit is a graphic representation of the history, structure and image of the National Capital with special emphasis on NCPC's role therein. It was designed and is being developed for two specific purposes: (1) To be placed on display in the NCPC office lobby where it will provide our visitors with an all-inclusive perception of the Nation's Capital and an overview of the Commission's work. (2) To be readily available for use by agency officials as a visual aid for presentations both locally and at other locations.

Question: Is it a major undertaking of the NCPC?

Answer: The exhibit is not a major undertaking and will consist only of 20 light-weight portable panels with accessories which were purchased for \$6,318 in November 1983 (FY 1984). On these panels our subject material is being attached in such a way as to facilitate changes and/or revisions. Primarily, the subject material is photography and artwork prepared in-house by our own staff.

Question: Was it presented to the Committee in previous years?

Answer: In view of its relatively modest cost and the fact that we only decided in the fall of 1983 that such an exhibit would be useful to the Commission, there was no opportunity to mention it at earlier hearings.

Question: What are the activities and associated costs of the exhibit by fiscal year?

Answer: To date, staff effort has been concentrated on development of the "image" sections of the exhibit and it is anticipated that these sections will be completed by the close of FY 1984. It is planned that the sections concerning "History" shall be completed during FY 1985.

The Exhibit is designed in such a way that all of our displayed material may be accommodated by the original 20 panels purchased in November, 1983 for \$ 6,318.00. Only minimal costs (\$500.00 per year or less) for film and graphic materials will be incurred until completion of the Exhibit, and for revisions thereafter.

FY 1983 Accomplishments

Question: Your justification talks about FY 1983 as if it were the current fiscal year. Why didn't you provide actual FY 1983 accomplishments in your justification?

Answer: Much of the narrative text material for the FY 1985 budget was originally written in the 11th month of FY 1983 and contained reference to accomplishments in the present tense.

Question: Actual FY 1983 obligations are included in the President's budget, why can't actual accomplishments also be included, as they are for most other agencies?

Answer: The references to actual FY 1983 accomplishments should have been described as completed actions in the justification document. All items focused to be completed in FY 1983 were completed within that time period.

Effects of Staff Reductions

Question: Over the past eight years the Commission's staff has decreased from 64 to 46 permanent full-time employees. How has this affected the skills needed to carry out the Commission's responsibilities?

Answer: Over the past several years the authorized personnel level for the National Capital Planning Commission has been reduced by about 30 percent. Consequently, there has been a need to concentrate activities in those planning areas requiring immediate response and to delay activities in long-range planning areas. For example, the schedules for completion of the Visitors and Tourist element and the general development plan for the central monumental area have been extended.

Question: What impacts would there be if these reductions were to continue?

Answer: We have been very cautious in making commitments to new planning initiatives and special studies so that our limited staff resources are not overtaxed. Another effect of these reductions is to often limit the Commission to the services of only one person in certain technical areas. Such a lack of depth somewhat affects the capacity for back-up in the event of unusually heavy work-loads or unanticipated staff absence or illness.

Question: Has it affected your ability to coordinate activities with other Washington, D.C., Councils and Commissions, such as the Pennsylvania Avenue Development Corporation, the Advisory Council on Historic Preservation, and the Commission of Fine Arts?

Answer: We feel, that these reductions have not adversely affected our ability to coordinate activities with other Washington area Councils or Commissions.

Question: You have been working on a Special Streets Plan. Can you provide additional background on this activity?

Answer: To carry out its Comprehensive Plan policies for the urban design of important "Federal" streets and avenues, the Commission has been preparing two Special Street Plans: for Independence Avenue, S.W.,

between First and Fifteenth Streets; and Constitution Avenue, N.W., between First Street and the Potomac River. Each plan addresses the environmental historic, monumental, user and maintenance qualities of the avenue's streetscape by means of site plans and illustrations as well as goals, objectives and policies. Streetscape components include landscaping, paving patterns, street furniture, lighting, and unique embellishments or special decorations and events.

Question: What are the objectives?

Answer: The planning objectives were to insure design of the various streetscape components, coordinate preservation protection and enhancement of the avenue spaces, and guide Commission and agency development and review of projects fronting on the avenues.

Question: How much will it cost?

Answer: As initially authorized by the Congress, consultant costs for both Special Street Plans totaled \$84,115.00, of which \$7,523.00 is left for current and final obligation for modifications that may be required after Commission review and comment.

Question: How long will it be before it is completed?

Answer: Analysis and design phases of the consultant's work are now substantially completed. The Staff Draft of the Proposed Special Street Plans is now being prepared for circulation and comment, with Commission adoption anticipated about January 1985.

Question: What other agencies are involved?

Answer: These Special Street Plans are solely a NCPC undertaking, but they are being specifically coordinated with the National Park Service, General Services Administration, Smithsonian Institution, DC Bureau of Transportation and the Architect of the Capital.

DEPARTMENT OF ENERGY

ENERGY INFORMATION ADMINISTRATION

[CLERK'S NOTE.—A formal hearing was not held on the fiscal year 1985 budget request for the Energy Information Administration.]

[The following questions were not asked at the hearing but were submitted to the Department for response subsequent to the hearing:]

ADDITIONAL COMMITTEE QUESTIONS

Language Change Proposal

Question: In your justification are you asking that \$5,300,000 be available until expended. What is your justification for this request? What is the distribution of this amount by program or activity and budget line item?

Answer: This request for funding to be made available until expended is intended to support projects that occur one time or are on a cycle longer than annual. The purpose of requesting no-year funds is to ensure the availability of funds until such projects are completed. The concept is similar to a construction account. It is common practice to appropriate sufficient funds to complete a facility, regardless of how many fiscal years the work crosses. This ensures that funding is not subject to budget pressures in subsequent years that would negate the value of previous years' funding if the project is halted mid-stream. EIA has many projects of a similar nature, but on a much smaller scale. These include one-time analysis reports, system design and development work, system revision work, survey redesign, some types of quality maintenance work such as large frames maintenance activities, and work that occurs on a cycle longer than annual, for example consumption surveys. The estimate of \$5,300,000 is an historical one. It represents the value of this non-recurring or time-limited work that EIA planned for in developing its annual operating plan for FY 1984. EIA has not yet developed its detailed annual operating plan for 1985, so the specific projects and their amounts are not known at this time. Almost all of this work is funded in Collection, Production and Analysis. In FY 1984 only \$200,000 for work of this nature was funded from Program Services, and about \$100,000 from Policy and Management. These amounts should be adequate for these two decision units in 1985, leaving \$5 million in Collection, Production and Analysis.

Financial Reporting System

Question: Your request for FY 1985 includes a reduction of \$1,000,000 for the Financial Reporting System. The Administration, however, submitted proposed legislation to eliminate this system. Exactly what is the status of the FRS? Will it be continued in FY 1985? Should the FRS be retained or eliminated? What funding would be required to maintain the FRS at the present level?

Answer: The 1984 appropriation contained \$2 million to conduct the Financial Reporting System for two data years, 1982 and 1983. This was necessary because the 1983 appropriation did not contain funds to conduct the FRS. An appropriate annual level of funding for this program is \$1,000,000 and this amount is contained in the FY 1985 budget to continue the program at its present level. The FRS should be eliminated. It is exceedingly burdensome, and has very few users for a program requiring this level of resources, especially when compared to other EIA programs.

Consumption Surveys

Question: Does the Energy Information Administration or the Bureau of the Census conduct an industrial energy survey? Does EIA plan to conduct such a survey in the future? If so, has it requested funds to conduct a survey in its 1985 budget request?

Answer: Neither the Energy Information Administration nor the Bureau of the Census presently conduct an industrial energy consumption survey. The last year for which the data are available is the Bureau of the Census 1981 Annual Survey of Manufactures (ASM). This special supplement to the ASM was funded by the EIA but was terminated because of lack of funds.

The EIA is in the preliminary stages of designing a survey for collecting energy consumption data from the manufacturing sector (Standard Industrial Classifications 20-39). A survey is planned in the future; funding will depend upon priorities in future years. As a part of the user needs survey, the EIA issued a notice in the Federal Register (49 Fed. Reg. 7188, February 27, 1984) which generally described this survey. The major information topics include aggregate consumption and end-uses of fuels; short and longer term ability of industry to consume alternate fuels; and economic characteristics of the establishment.

The Department of Energy did not include resources for this survey in its 1985 budget request; however, presurvey planning funds are included.

Question: Does the private sector use EIA's consumption surveys (the Residential Energy Consumption Survey and the Nonresidential Buildings Consumption Survey) that EIA has conducted in the past? If so, can you provide a description of the number of private users, the use to which the data is put, and whether these companies consider the information to be valuable?

Answer: Residential Energy Consumption Survey (RECS) data are collected from a sample of U.S. households. These data were collected annually from 1978 through 1982 and will now be collected biennially starting with 1984 because the energy characteristics of the housing stock do not change significantly enough for an annual survey. The RECS provides national and regional estimates by Census regions. These data are used extensively by private sector users as they are the authoritative statistical time series on a national and regional basis. Most users are pleased with the RECS data published, but, as with most government statistics, would like more detailed data.

RECS is used by a large number of users. The number of reports sold or distributed each year is approximately 4,000 copies. But in addition to published reports, RECS data appear in secondary sources such as the Statistical Abstract of the United States and newspapers which multiply use to an unknown degree.

The types of private sector users are summarized below:

User	Use
1. Gas and electric utility companies	- Planning - Forecasting demand for electricity and gas - Hearings on rate cases
2. Trade associations for gas and electric utility companies and energy producers	- Program development for low income families - Forecasting demand for electricity or gas - Planning for emergencies
3. Manufacturers	- Market potential for energy conservation equipment and improvements
4. Financial institutions	- Develop credit programs for delivered fuels - Forecasting energy demand
5. Economic Consulting Firms	- Forecasting energy demand - Efficiency of energy-using equipment - Energy consumption end use - Energy conservation
6. Public Interest Groups	- Hearings on rate cases
7. Energy producers	- Forecasting energy demand
8. Law firms	- Legal cases
9. Communication Media	- Prepare material on energy topics
10. Research Institutions	- Master metering

Another aspect of RECS is the Residential Transportation Energy Consumption Survey (RTECS). The RTECS consists of data collected from a rotating set of RECS households and provides data for the Nation and 4 Census Regions on miles travelled, gallons consumed and types of fuels used and miles per gallon for household vehicles. This survey was collected monthly for the period September 1979 through September 1981 and annually for calendar year 1983. The 1983 survey data will be published in late 1984. The major private sector user of RTECS data is a major automobile manufacturer which uses the data for studies of fuel consumption.

The Commercial, or Nonresidential Buildings Energy Consumption Survey (NBECS) data have been collected for periods 1979-1980 and 1983-1984. These surveys provide first-time-ever data on the characteristics of the nonresidential buildings stock as well as the energy consumption and expenditures for the sector. Data reports containing NBECS I data have been published and approximately 4,000 copies of the publications have been distributed. These data are used extensively by the private sector for determining marketing strategies which relate to energy use within commercial buildings. Examples of these users include:

- o Buildings and energy trade associations are concerned with number of buildings, building type, year of construction, number of employees, square footage and consumption and expenditures data.

- o Statistical Abstract of the United States published data on number of buildings, region, building type, and square footage.
- o Utility Companies utilize data on consumption by end use; consumption per square footage for office buildings; and natural gas consumption.
- o Forecasting services use the data set for energy and construction estimates for modeling and research.
- o Market research by a broad range of companies interested in the market potential of selling various devices or services to buildings; for example, heating ventilation and air conditioning and energy management control systems for buildings, and construction and insulation systems for buildings and consumption by specific building type.

State Level Data

Question: Is there any other source of state-level energy consumption, price and expenditures information available by sector and product besides that published by EIA in its State Energy Data Report and Energy Price and Expenditures Data Report? Given the Congressional mandate expressed in the "Railback Amendment" to the Energy Policy and Conservation Act, requiring EIA to collect and publish this state-level information, why were these reports eliminated in the 1985 budget?

Answer: Both the State Energy Data Report and the Energy Price and Expenditures Data Report are derived from primary data produced by EIA. These primary data will continue to be available. Given limited resources in 1985, in the light of a huge Federal deficit, it was decided that it was better to eliminate secondary data systems rather than the primary systems from which these data are derived. With regard to state level information we believe we are meeting Congressional intent in the most efficient manner possible.

Question: The Low-Income Home Energy Assistance program uses the Residential Energy Consumption Survey, the State Energy Data Report and the Energy Price and Expenditures Report to allocate program funds to the states. This program is currently funded at \$2 billion annually. With no funding in the 1985 budget for the Residential Energy Consumption Survey and EIA's plans to eliminate the SEDS and EPEDS, what information would be used to allocate funds to the states in the future? How accurate would it be?

Answer: Staff of the Department of Health and Human Services (HHS) have informed my staff that they do not use SEDS to allocate Low Income Home Energy Assistance Program (LIHEAP) funds. Rather, in accordance with the Low Income Home Energy Assistance Program Act of 1981 (Title XXVI of the Omnibus Budget Reconciliation Act of 1981), HHS determines State LIHEAP allotments based on the percent of the total amount available which each State was eligible to receive in FY 1981. To assist them in developing their annual report, required by section 2610 of the LIHEAP Act, HHS sponsors a portion of the Residential Energy Consumption Survey (RECS), and uses SEDS in analyzing the results. The proposed termination of the SEDS program will not affect HHS ability to carry out the LIHEAP allocations under present law.

Question: Given the emphasis placed by the Department of Energy in its National Energy Policy Plan on the importance of conservation and renewable energy sources in the nation's future, why does EIA plan to eliminate many of the reports (Residential Energy Consumption Survey, Estimates of U.S. Wood Energy Consumption, Solar Collector Manufacturing Activity Report, and the Nonresidential Buildings Energy Consumption Survey) that would help meet this need? What plans does EIA have to meet the information needs of the private sector and state and federal officials to evaluate progress toward utilization of these energy sources?

Answer: The Residential Energy Consumption Survey and the Nonresidential Buildings Energy Consumption Survey are being conducted on a less than annual cycle. Although no funds are provided in the FY 1985 budget for these surveys, they are planned in future years, resources permitting. The Estimates of U.S. Wood Energy Consumption and the Solar Collectors Manufacturing Activity Report were eliminated from the 1985 budget because there simply were not sufficient resources to fund all information programs. At the present time EIA does not have the resources to meet the information needs of the private sector and state and federal officials to evaluate progress toward utilization of alternate energy sources. However, decisions about resources for these programs in future years have yet to be made.

Foreign Crude Oil Transaction Report

Question: After the October 1983 hearings on DOE's Emergency Preparedness Program, concern was expressed about the future of the "Foreign Crude Oil Transaction Report." This report (EP-51) gathers detailed foreign crude oil price and volume data from oil companies which is important to understand how foreign crude oil markets affect the United States. While the American Petroleum Institute objected to reclearance of the EP-51 form, DOE supports this data collection form and the EIA's 1985 budget request contains funds to gather and process the data. Has the petroleum industry continued to object to the form? Has EIA submitted the form to the Office of Management and Budget for reclearance? If so, what is its current status?

Answer: EIA conducted a two year evaluation of reporting of foreign crude oil information that culminated in the submission of a clearance package for the EIA-856 form (which replaces the current EP-51 form) to the Office of Management and Budget (OMB) on February 22, 1984. As part of that study effort, EIA examined the potential for consolidating most of its petroleum imports reporting systems into a single monthly form. A concept for consolidation was developed based on known requirements and comments by analysts made during a data users conference of industry, government, and trade press representatives. The concept was then presented to industry respondents at a conference in February 1983. At that conference, industry respondents expressed a preference for leaving all forms "as is" except the EP-51, which would be refined through further study. Between that time and EIA's submission of the form to OMB for clearance, numerous discussions were held with industry representatives who were suggested by the American Petroleum Institute. The recommendations of the industry resulted in several important modifications to the form to make it less burdensome. Accordingly, EIA forwarded the form to OMB for clearance.

Only the Sun Company, Inc. submitted a formal complaint to OMB regarding clearance of the form. In mid-April EIA provided to OMB an in-depth, point by point discussion of factual errors and omissions in Sun's complaint. On May 16, at OMB's request, EIA provided additional detailed answers to certain instructions that seemed unclear to the OMB reviewers. On May 22, 1984, OMB cleared the EIA-856, with no modification, for 3 years.

Question: Isn't the U.S. obligated to provide crude oil price data from this form to the International Energy Agency?

Answer: The U.S. is one of 16 signatories to the "Agreement on an International Energy Program." As such, the U.S. must provide to the International Energy Agency a monthly report of crude oil purchased for U.S. importation. The data currently collected on the EP-51 is the only data source which can provide the required information.

Question: What other U.S. federal agencies depend on this data collection for information on foreign crude oil markets?

Answer: The Bureau of Labor Statistics currently uses data collected on the EP-51 to generate indexes for their international price program. Other Federal agencies have used statistics generated from EP-51 data, many on a regular basis. These agencies include: the Internal Revenue Service, the Federal Trade Commission, the Commodity Futures Trading Commission, the Office of Management and Budget, the Department of Justice, and the General Accounting Office.

EIA Form 174, "Sales of Liquid Petroleum Gases"

Question: Liquid Petroleum gas accounts for 53 percent of total residential petroleum use in Montana, 67 percent in Nebraska, 66 percent in Missouri and 98 percent in Kansas. On what basis was the EIA-174, "Sales of Liquid Petroleum Gases," discontinued?

Answer: The decision to suspend the EIA-174 survey came after EIA realized that the quality of the data had deteriorated to an unacceptable level due to significant changes in the industry and numerous inconsistencies in the manner in which respondents reported their sales. EIA considered restructuring the program, but determined that the amount of expected improvement did not warrant the high cost and respondent burden, as compared to other priority programs.

Question: Did EIA include funding for this information collection in its original budget request for 1985? If so, how much was requested?

Answer: In its original FY 1985 budget request of \$76 million to the Department, EIA included \$675,000 to fund both operation and restructuring of this survey, including frames updating and improvement activities, as well as extensive field work to implement revised reporting procedures.

State Level Crude Oil Prices

Question: When will State level crude oil prices be published again by EIA?

Answer: EIA intends to resume publication of State level crude oil prices by late spring of 1985. EIA is currently conducting a user study to examine possible modifications to the current reporting system for these data which are collected on the Form EIA-182, "Domestic Crude Oil First Purchaser's Report." Since this form expires during 1984, EIA has requested Office of Management and Budget approval of a one-year extension of collection authority for these data to cover the study period required to fully clarify user needs while also determining respondents reporting capabilities and costs.

The findings of this study are tentatively scheduled for completion by early fall and form the major input to the forms clearance review process, a revised form, and publication of State level data.

Question: Are the funds to continue this data collection effort in the 1985 budget request? If not, how much would be needed?

Answer: The FY 1985 budget request contains sufficient funds to support both the continued operation of this survey, and the study and potential modification activities.

EIA - State Heating Oil Program

Question: Several States in the Mid-Atlantic faced unprecedented heating oil price increases during January and February of this year. Since the Energy Information Administration (EIA) discontinued its heating oil grants to States, EIA was unable to respond to Congressional inquiries concerning the numbers of States affected by rapid heating oil price increases and the causes of the increases. Does EIA plan to provide these heating oil grants to States out of its 1985 budget?

Answer: The EIA's State Heating Oil Program will be conducted for the 1984-85 heating oil season using FY 1984 funds. For subsequent periods, EIA plans to use its own collection programs and public sources, such as the Oil Buyer's Guide and Platt's Oilgram Price Report, to respond to inquiries on this subject. These sources have proven reliable in responding to questions during the 1983-84 heating season, and EIA believes they will continue to be useful in the future.

Alternative Fuels Program

Question: What would it cost to continue the collection of data and production of reports on the alternative fuels program?

Answer: The collection of data and production of the Solar Collectors Manufacturing Activity Report would cost \$50,000 plus .5 FTE at \$23,000 for a total of \$73,000. The production of the Wood Energy Consumption report would cost \$100,000 and another .5 FTE at \$23,000 for a total of \$123,000.

Program Services

Question: Page 243 of your justification says that computer equipment purchases have been deferred into future years. How much was purchased in FY 1984?

Answer: The following computer equipment was purchased in FY 1984:

IBM 3033 MP Computer System	\$1,086,160
Peripheral Equipment	265,328
IBM 4341 Computer System	180,276
IBM 4341 Peripheral Equipment	47,509
Computer Terminal Equipment	<u>150,000</u>
Total	\$1,729,273

Question: Where did the 1984 funds come from?

Answer: The FY 1984 funds for the purchase of computer equipment came from the appropriation for the Energy Information Administration specifically from Information Management Services in the Program Services activity line.

Question: Page 243 of your justification says that computer equipment purchases have been deferred into future years. How much was purchased in FY 1984? Where did the 1984 funds come from? What purchases are being deferred?

Answer: Computer equipment purchases being deferred in FY 1985 are:

- o Automated office support systems designed to enhance management, professional, technical, and secretarial/clerical productivity and to integrate workflow among all elements of EIA.
- o Computer peripheral equipment to coincide with the procurement of a major upgrade to the main computer system and the implementation of a major software development project.

Quality Maintenance

Question: In your cost/benefit analysis of quality maintenance you state that, "delayed quality maintenance at least doubles the cost in those cases where cost can be measured." Will the FY 1985 budget request eliminate your backlog of delayed quality maintenance? How much did EIA request of the Department and OMB for quality maintenance in FY 1985.

Answer: The backlog of quality maintenance investment activities included projects for programs that are not being conducted in FY 1985. EIA requested \$6.4 million of the Department, and the Department requested \$3 million of OMB for quality maintenance investment activities in FY 1985. However, the backlog of quality maintenance investment items, for which the additional \$3.4 million was intended, was eliminated when the programs for which they were intended were deleted from the FY 1985 budget request. These consisted mainly of a number of consumption survey activities, and LPG and imports forms modifications.

Question: The GAO and Professional Audit Team pointed out operational problems in EIA that they believe are the result of inadequate funding during the last three fiscal years. What is your response to their reports? Have you prepared written replies to their reports? If so, please provide a copy of each reply for the record.

Answer: The Government Accounting Office (GAO) report entitled "Information on Budget Reductions in Energy Information Administration Programs" described the programmatic impact of budget reductions, not operational problems, and does not contain any recommendations. The report was prepared at the request of the Chairman, Subcommittee on Fossil and Synthetic Fuels, House Committee on Energy and Commerce, who requested the GAO not obtain agency comments. GAO did, however, discuss the contents of the report with the EIA Deputy Administrator, who commented that the report presents a fair assessment. The Professional Audit Review Team's report has not been issued in final form. We were asked to comment on the draft of this report; copy of our comments follows.

MAR 6 1984

Mr. F. Kevin Boland
Chairman
Professional Audit Review Team
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Boland:

I appreciate the opportunity to respond to the Draft of a Proposed Report: Performance Evaluation of The Energy Information Administration, Department of Energy, prepared by the Professional Audit Review Team (PART). I was pleased to find the draft report recognizes the accomplishments of the Energy Information Administration (EIA) since the last report, issued in

May 1982, and that the report acknowledges the resource constraints with which EIA is faced.

I would amplify further the extent of those constraints by pointing out that in constant dollars, EIA's budget for FY 1984 is 48 percent lower than its peak year (FY 1980), and 18 percent lower than the budget for EIA's first year (FY 1978). Under these conditions, the major resource decision I have had to make was to choose between eliminating part of EIA's core program and postponing quality investments. For the past two years, I chose the latter option because far greater damage is likely to be done to quality by suspending and attempting to restart a statistical series than by temporarily delaying quality evaluations, frames maintenance, and other quality program activities.

In partial recognition of the need for a quality emphasis, Congress added \$1 million additional funds to EIA's FY 1984 appropriation for quality investments. The President's budget request to Congress for FY 1985 includes \$3 million for quality investments by EIA, or three times the level Congress provided in our current appropriation. To accomplish the goals in the President's request, I am proposing the suspension or deferral of certain programs.

A further indication of EIA's programmatic constraints is the reduction in EIA's position authorization from 906 to 490, a 46 percent decline. As I noted in my reply to the last PART Report, EIA very carefully assessed its staffing needs in preparation for the July 1981 reorganization. However, EIA was also required to conduct a Reduction-In-Force (RIF) at that time. As I am sure PART well knows, staffing plans must be matched to real people who will perform the tasks. Congress established a floor under EIA's full-time permanent employment at the end of FY 1982. Planning for EIA's human resources means acquiring and replacing skills in our workforce in a manner that complies with the law. EIA has a good understanding of its personnel requirements, but must often hire staff with a different set of qualifications. I authorized a programmatically oriented staff study to begin addressing such questions, because we have always had plans for positions which clearly identified skill and knowledge requirements, but cannot find the people to fill some of the most critical positions. We are faced with the problem, therefore, of staff development, not of task analysis.

PART identified several key concerns which I share in the areas of quality assurance, analysis services for external customers, staffing and planning, and data requirements assessment. In response to each of PART's specific recommendations, I have directed that EIA take the following actions:

- o "...address the scope and frequency of the quality audits,"

The Office of Statistical Standards (OSS) is working with the Office of Planning and Resources (OPR) to develop a Quality Program Plan, which addresses goals, activities, and resources for both quality assurance and quality control. The Quality Program Plan will be developed in conjunction with EIA's multi-year and annual operating plans.

- o "...improve the documentation for models,"

A major activity area covered by the Quality Program Plan will be model documentation, including a review of existing standards, improvement of existing

documentation, development of effective procedures for future documentation efforts, and allocation of adequate resources to implement those procedures.

- o "...improve the quality of frames,"

Another major activity area covered by the Quality Program Plan will be frames development, consolidation, and maintenance for which the Congress provided additional funds in FY 1984 and for which EIA is requesting additional funds for FY 1985. OSS will complete its review of the contractor report, and incorporate appropriate recommendations into the Quality Program Plan.

- o "...clearly assign responsibilities for specific quality control and assessment activities,"

OSS and OPR have been working together to produce clear and consistent definitions of EIA Quality Program terms and elements. These will be incorporated into guidance that resulted from the Planning and Program Review Board (PPRB) meeting on quality, held in September 1983. The guidance will be issued during the Spring of 1984.

- o "...evaluate the comparative effectiveness and efficiency of the program offices' quality control strategies,"

OSS will include plans for an evaluation of quality control strategies among the activities incorporated into the Quality Program Plan.

- o "...have program offices develop broad office-wide quality control procedures."

The Quality Program Plan will establish goals for preparing office-level policy statements to reinforce existing energy information system quality control procedures.

- o "PART recommends that the Administrator require the Director of Planning and Resources to ensure that a central process and uniform procedures are used to record the assumptions that requesters want to have incorporated into EIA's forecasts and analyses and that the resultant products clearly describe the requesters' specifications."

OPR will write and issue the Information Services Order and an Analysis Products Order which will formalize existing operational processes and procedures for analysis products and for services provided to external customers.

- o "PART recommends that the Administrator require the Director, Office of Planning and Resources, to...assess the number and types of skills EIA needs to meet its overall requirements and to determine whether staffing allocations to each office are appropriate..."

OPR will complete its staffing study in progress and, in addition, will develop improved ways for planning human resources requirements in conjunction with EIA's

multi-year and annual operating plans. EIA's human resources planning will address program requirements and staff development and training.

- o - "PART recommends that the Administrator require the Director, Office of Planning and Resources, to...develop a multi-year plan for carrying out EIA's activities."

OPR will implement improvements in its multi-year planning process to refine what has been accomplished in the past five years.

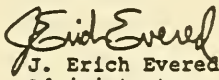
- o "PART recommends that the Administrator require the director of each program office to develop a plan for conducting a comprehensive data requirements study in each energy topic area and for periodically updating these studies."

OPR will promulgate a formal requirement for planning data requirements studies.

I have further directed that each of the specific actions indicated above be incorporated into a Product Accountability System (PAS) item, with schedules, for me to monitor progress and results.

Technical comments and corrections to the draft report are being forwarded directly to your staff under separate cover. Please call me if you have any questions.

Sincerely,



J. Erich Evered
Administrator
Energy Information Administration

State Heating Oil Grants

Question: Are there any funds in the FY 1985 budget for State Heating Oil Grants?

Answer: As indicated above, the FY 1985 budget request does not contain funds for these grants, although the program will be conducted during the 1984-1985 heating oil season using FY 1984 funds.

Question: What has been the funding history of this program from FY 1980 through FY 1985? What have the actual grants been by State for that period?

Answer: The funding history for this program over this period is summarized in the following tables:

Total Funding for the State Heating Oil Program 1/

1980/81	\$102,285
1981/82	181,325
1982/83	166,547
1983/84	0
1984/85	200,000
1985/86	0

Approximate Ranges of Individual
State Heating Oil Grants

1980/81	\$4,000 - \$8,000
1981/82	4,600 - 22,000
1982/83	5,100 - 19,000
1983/84	NA
1984/85	5,000 - 20,000 <u>2/</u>
1985/86	NA

1/The grant periods cover the heating oil season from October through May. However, funds are allocated from budgets in the year awarded. For example, the 1980/81 grants were funded from the FY 1980 budget.

2/Since these grants have not yet been awarded, the range is approximate.

Policy and Management

Question: You are proposing an increase of \$951,000 over FY 1985 for Communications, Utilities and Other Rent (+80%) in the policy and management account. What accounts for this large increase?

Answer: These estimates are prepared by the Director of Administration who manages these administrative support contracts for the entire Department. Over half (\$524,000) of the increase reflects anticipated increases in both telephone rates and equipment rentals and purchases as a result of the decontrol of that industry. The remainder of the increase reflects the difference between the amount appropriated and actual requirement in FY 1984, which is a portion of a reprogramming action presently being developed. The methodology for estimating administrative support costs was revised for the formulation of the FY 1985 budget request; thus, we do not anticipate such a shortfall in these costs in FY 1985.

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