



MINERALS MANAGEMENT SERVICE

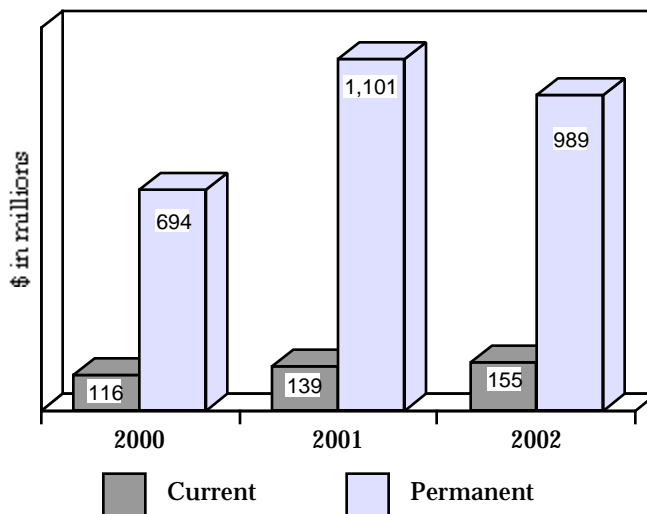
Mission – The Minerals Management Service was formed by Secretarial Order in 1982 to facilitate the Nation's mineral revenue collection efforts and the management of its Outer Continental Shelf offshore lands. The MMS has two major responsibilities: management of energy and mineral resources on the Nation's OCS in an environmentally sound and safe manner; and timely and accurate collection, distribution, accounting for, and auditing of revenues owed by holders of mineral leases on Federal onshore and offshore and Indian lands.

Program Overview – The MMS programs are vitally important, contributing significantly to the Nation's economic well-being and energy security. Energy production from the OCS continues to increase, thereby helping to limit dependence on imported energy. The increased natural gas produced from the OCS will continue to play a key role in our Nation's efforts to reduce air pollution. In 2001, the MMS programs will collect about \$9 billion in revenues from minerals produced from offshore and onshore Federal and Indian lands. This income contributes to the funding of other Federal programs. In addition to Federal and tribal interests, MMS also supports States and local governments through revenue sharing and by providing OCS sand and gravel for beach nourishment projects. Over time, increasing OCS rental revenues have permitted MMS to use receipts to cover nearly half of its total budgetary requirements, thus freeing up millions of dollars in limited discretionary budget authority to address other Federal high-priority programs.

Budget Overview – The 2002 MMS budget request is \$258.2 million, a net increase of \$11.6 million above the 2001 enacted level. Three permanent appropriations totaling \$989.2 million will provide States with their statutory shares of mineral leasing revenues generated on Federal lands.

In 2002, offsetting receipts are estimated to be \$102.7 million, \$4.7 million less than in 2001. The request for direct appropriations is \$155.5 million, an increase of \$16.3 million over enacted in 2001. This increase, along with a \$15.0 million program decrease due to the completion of the royalty re-engineering initiative, will enable

MMS Funding



MMS to fund uncontrollable cost increases, transition to the new mineral royalty management system, improve bureau financial management processes, acquire gas management computer systems for carrying out the pilot royalty-in-kind programs, and allow MMS to keep pace with demand for various services on the OCS.

OCS Program – The goal of the OCS program is to provide for safe and environmentally sound energy and mineral development on the OCS and to ensure that the public receives fair market value for these resources. MMS's OCS activities contribute to the Nation's economic well-being and energy security. To carry out this goal, MMS's activities include review of new exploration and development plans, examination of pipeline right-of-way applications, environmental assessments, and inspections of mineral extraction operations on-site.

In 2002, the OCS lands program level will be \$125.9 million, an increase of \$7.9 million over the 2001 enacted level. The MMS proposes to eliminate \$599,000 in funding for the Center for Marine Resources and Environmental Technology to complete the phase-out of this activity as planned in the 1996 transfer of the program from the Bureau of Mines. The MMS also proposes to reduce funds

provided for the Offshore Research and Technology Center by \$499,000 to \$900,000 to better reflect funding priorities for research in oil and gas exploration and production.

In 2002, MMS plans a program increase for OCS activities in the Gulf of Mexico of \$7.4 million to keep pace with demand for MMS's oversight services, which include processing permits to drill, reviewing development plans, and inspecting offshore operations to ensure both worker and environmental safety. As leases from the large 1998 lease sale mature and move toward production, industry demand for MMS services increases, particularly in deep water. To facilitate this move to production, and to prevent an accumulation of unprocessed permits, MMS plans to add a total of 34 staff to perform required environmental impact assessments, review exploration and development plans, and inspect offshore operations. This funding also covers the increase in the cost of traveling to offshore operations to perform safety inspections.

Although offshore development activity is increasing, MMS is projecting a continuing decline in offsetting receipts revenue from OCS lands due to the natural progression of resource development on OCS lands. MMS does not receive revenue from rents on OCS leases after production begins, so as tracts move into production, lessees stop paying rent on their leases to MMS. At the same time, companies that hold producing leases are unlikely to show strong interest in maintaining large inventories of new, non-producing tracts. The 2002 request includes an additional \$4.7 million in appropriated funding to maintain MMS's current programs. This is \$1.9 million less than was requested for this purpose last year.

Minerals Revenue Management - In 2002, the total Minerals Revenue Management program is funded at \$83.3 million, a decrease of \$2.8 million from the 2001 level of \$86.1 million that is made possible by the completion of the royalty re-engineering program in 2001. The goal of the MRM program is to ensure that revenues from Federal and Indian mineral leases are effectively, efficiently, and accurately collected, accounted for, and disbursed to recipients. These revenues, which have historically averaged over \$4 billion per year, are distributed to 38 States, 41 Indian Tribes, some 20,000 Indian mineral royalty owners, and to U.S. Treasury accounts. In order to meet these responsibilities, the Department is committed to completing the royalty re-engineering program in 2001 and transitioning to the new processes in 2002. Completion of the royalty re-engineering program in 2001 will allow the reduction of \$15.0 million in 2002.

In 1998, MMS initiated a three-year effort to re-engineer the Royalty Management program's operational systems. This project addressed all core business processes, includ-

ing the improvement of financial, accounting, compliance, and supporting computer systems, while reducing the likelihood of system failure and operational instability. Re-engineering RMP has included reorganizing staff by geologic basin and the budget structure of this activity. The re-engineered program, now named the Minerals Revenue Management system, will be on-line and operational at the beginning of 2002. The MMS proposes to fund transition to the new system at \$4.0 million. To ensure operational continuity and consistent service to industry and government customers, MMS will run appropriate components of both the re-engineered and legacy systems concurrently during the transition year.

MMS will also continue its commitment to exploring innovative frameworks for collecting Federal royalties by acquiring systems necessary to support taking some royalties in kind rather than in value when doing so makes sense to the Federal government. In 2002, MMS is requesting \$7.3 million to fund acquisition of specialized computer systems designed to manage the transactions involved in bringing natural gas to market. MMS plans to request funding for similar systems designed to manage royalty oil in 2003.

Streamlining and Uncontrollable Costs - The budget provides an increase to cover \$8.9 million in fixed cost increases; an additional \$1.8 million in fixed cost increases will be absorbed through streamlining. In 2002, MMS will also make \$2.0 million in streamlining reductions through administrative and program efficiencies.

General Administration - A \$2.0 million program increase is proposed for 2002 to fund personnel, training, and progress evaluations in support of improving the Division of Financial Management's performance on financial audits. These changes will implement the recommendations of the Department's Inspector General and of consultants for obtaining adequate internal controls within an appropriate organizational structure.

Oil Spill Research Program - This program supports oil pollution research and other duties related to oil spill prevention, as authorized by the Oil Spill Pollution Act of 1990. It is continued at the 2001 enacted funding level of \$6.1 million to ensure protection of OCS and coastal resources for future generations.

Government Performance and Results Act - The MMS's annual performance plan for 2002 reflects the Department of the Interior's approach to improving and streamlining performance goals and measures, and to link the plan with the budget. MMS's annual performance report for 2000 presents MMS's accomplishments in 2000 and the bureau's plans for 2001.

SUMMARY OF BUREAU APPROPRIATIONS
(all dollar amounts in thousands)

Comparison of 2002 Request with 2001 Enacted:

	2001 Enacted		2002 Request		Change from 2001	
	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>	<u>FTE</u>	<u>Amount</u>
Appropriations						
Royalty and Offshore Minerals Management	1,714	133,116	1,753	149,368	39	+16,252
Oil Spill Research.....	23	6,105	23	6,105	0	0
Subtotal, Direct Appropriations	1,737	139,221	1,776	155,473	39	+16,252
Offsetting Collections.....		107,410		102,730		-4,680
Subtotal, Appropriations.....		246,631		258,203		+11,572
Permanents and Trusts						
Mineral Leasing and Associated Payments.....	0	1,093,993	0	982,502	0	-111,491
Leases of Lands Acquired for Flood Control						
Navigation, and Allied Purposes	0	1,715	0	1,539	0	-176
Nat'l Forests Funds, Payments to State.....	0	5,399	0	5,133	0	-266
Subtotal, Permanents and Trusts	0	1,101,107	0	989,174	0	-111,933
TOTAL, MINERALS MANAGEMENT SERVICE....	1,737	1,347,738	1,776	1,247,377	39	-100,361

HIGHLIGHTS OF BUDGET CHANGES
By Appropriation Activity/Subactivity

APPROPRIATION: Royalty and Minerals Management

	<u>2000 Actual</u>	<u>2001 Enacted</u>	<u>2002 Request</u>	<u>Change from 2001 Enacted</u>
Outer Continental Shelf Lands				
Leasing & Environmental Program				
Appropriation	9,406	15,049	18,238	+3,189
Offsetting Collections.....	26,483	21,462	20,335	-1,127
Total, Leasing & Environ. Prog.	35,889	36,511	38,573	+2,062
Resource Evaluation Program				
Appropriation	9,268	13,460	14,486	+1,026
Offsetting Collections.....	13,633	10,116	8,903	-1,213
Total, Resource Evaluation Prog.	22,901	23,576	23,389	-187
Regulatory Program				
Appropriation	17,837	26,686	34,630	+7,944
Offsetting Collections.....	24,377	16,436	14,443	-1,993
Total, Regulatory Program.....	42,214	43,122	49,073	+5,951
Information Management Program				
Appropriation	0	380	845	+465
Offsetting Collections.....	14,507	14,396	14,049	-347
Total, Info. Mgmt. Program	14,507	14,776	14,894	+118
OCS Appropriation	36,511	55,575	68,199	+12,624
OCS Offsetting Collections	79,000	62,410	57,730	-4,680
Subtotal, OCS Lands	115,511	117,985	125,929	+7,944
Royalty Management				
Compliance & Asset Management				
Appropriation	33,758	34,842	34,871	+29
Offsetting Collections.....	13,235	13,235	13,235	0
Total, Valuation & Operations.....	46,993	48,077	48,106	+29
Revenue & Operations				
Appropriation	24,044	24,784	21,973	-2,811
Offsetting Collections.....	13,250	13,250	13,250	0
Total, Compliance.....	37,294	38,034	35,223	-2,811
Indian Allottee Refunds				
Appropriation	0	0	0	0
Offsetting Collections.....	15	15	15	0
Total, Indian Allottee Refunds	15	15	15	0
Late Interest Payments				
Appropriation	60	0	0	0
Offsetting Collections.....	0	0	0	0
Total, Late Interest Payments	60	0	0	0
Program Service Office				
Appropriation	0	0	0	0
Offsetting Collections.....	0	0	0	0
Total, Program Service Office	0	0	0	0

	<u>2000 Actual</u>	<u>2001 Enacted</u>	<u>2002 Request</u>	<u>Change from 2001 Enacted</u>
RM Appropriation.....	57,862	59,626	56,844	-2,782
RM Offsetting Collections	26,500	26,500	26,500	0
Subtotal, Royalty Management	84,362	86,126	83,344	-2,782
General Administration				
Executive Direction				
Appropriation	921	982	1,003	+21
Offsetting Collections.....	1,000	1,000	1,000	0
Total, Executive Direction	1,921	1,982	2,003	+21
Policy & Management Improvement				
Appropriation	2,860	2,981	3,036	+55
Offsetting Collections.....	1,000	1,000	1,000	0
Total, Policy & Mgmt. Improve.....	3,860	3,981	4,036	+55
Administrative Operations				
Appropriation	12,046	12,607	15,215	+2,608
Offsetting Collections.....	1,555	1,555	1,555	0
Total, Admin. Operations.....	13,601	14,162	16,770	+2,608
General Support Services				
Appropriation	0	1,345	5,071	+3,726
Offsetting Collections.....	14,945	14,945	14,945	0
Total, General Support Services	14,945	16,290	20,016	+3,726
GA Appropriation	15,827	17,915	24,325	+6,410
GA Offsetting Collections	18,500	18,500	18,500	0
Subtotal, General Administration ...	34,327	36,415	42,825	+6,410
TOTAL BUDGET RESOURCES	234,200	240,526	252,098	+11,572
Total Appropriation	110,200	133,116	149,368	+16,252
Total Offsetting Collections	124,000	107,410	102,730	-4,680

Highlights of Budget Changes

	<u>Amount</u>
Uncontrollable Cost Increases (non-add)	[+10,727]
Outer Continental Shelf Lands	
Leasing & Environment	+2,062
Increases are proposed for Gulf of Mexico workload (+1,680) to accommodate increased demand for OCS services, including drilling permits and exploration and development plans. Uncontrollable costs total \$725, of which \$526 are budgeted and \$199 are absorbed. Streamlining savings are \$144 and are included in the total streamlining savings discussed below.	
Resource Evaluation	-187
A decrease is proposed for the Center for Marine Resources and Environmental Technology which will be eliminated due to higher priorities for oil and gas exploration and extraction (-599). Uncontrollable costs total \$788 of which \$566 are budgeted and \$222 are absorbed. Streamlining savings are \$154 and are included in the total streamlining savings discussed below.	
Regulatory	+5,951
Increases are proposed for Gulf of Mexico workload (+5,716) to accommodate increased demand for OCS services, including reviewing operational plans and on-site inspections of offshore operations. A decrease is proposed for the Offshore Technical Research Center due to higher priorities for oil and gas exploration and extraction (-499). Uncontrollable costs total \$1,321 of which \$988 are budgeted and \$333 are absorbed. Streamlining savings are \$254 and are included in the total streamlining savings discussed below.	

	<u>Amount</u>
Information Management	+118
Uncontrollable costs total \$229 of which \$162 are budgeted and \$67 are absorbed. Streamlining savings are \$44 and are included in the total streamlining savings discussed below.	
Minerals Revenue Management	
Compliance & Asset Management	+29
Increases are proposed acquiring RIK-related systems that support longer-term RIK projects (+7,300). Decreases are proposed for the royalty re-engineering initiative that is scheduled for completion at the end of 2001 (-7,483). Uncontrollable costs total \$1,618 of which \$1,186 are budgeted and \$432 are absorbed. Streamlining savings are \$974 and are included in the total streamlining savings discussed below.	
Revenue & Operations	-2,811
Increases are proposed for Minerals Revenue Management to safely transition from the legacy royalty management system to reengineered system technologies, applications and processes resulting from the royalty reengineering initiative (+4,003). Decreases are proposed for the royalty re-engineering initiative that is scheduled for completion at the end of 2001 (-\$7,484). Uncontrollable costs total \$914 of which \$670 are budgeted and \$244 are absorbed.	
General Administration	
Executive Direction	+21
Uncontrollable costs total \$83 of which \$61 are budgeted and \$22 are absorbed. Streamlining savings are \$40 and are included in the total streamlining savings discussed below.	
Policy & Management Improvement	+55
Uncontrollable costs total \$156 of which \$114 are budgeted and \$42 are absorbed. Streamlining savings are \$59 and are included in the total streamlining savings discussed below.	
Administrative Operations	+2,608
Increases are proposed to implement recommendations from the Department's Inspector General and outside consultant regarding a lack of internal accounting and transactional controls which hindered proper recording and processing of transactions (+1,963). Uncontrollable costs total \$1,167 of which \$963 are budgeted and \$204 are absorbed. Streamlining savings are \$318 and are included in the total streamlining savings discussed below.	
MMS All	
Streamlining Savings (non-add)	[-1,987]
Includes savings achieved from a bureau-wide review of administrative costs and staffing levels to reduce redundancy and inefficiency and to incorporate processes for maximizing return from existing resources.	

APPROPRIATION: Oil Spill Research

	<u>2000 Actual</u>	<u>2001 Enacted</u>	<u>2002 Request</u>	<u>Change from 2001 Enacted</u>
TOTAL APPROPRIATION	6,118	6,105	6,105	0