

ELK HILLS SCHOOL LANDS FUND

Proposed Appropriation Language

For necessary expenses in fulfilling installment payments under the Settlement Agreement entered into by the United States and the State of California on October 11, 1996, as authorized by section 3415 of Public Law 104-106, \$36,000,000 for payment to the State of California for the State Teachers= Retirement Fund from the Elk Hills School Lands Fund.

Note.-A regular 2003 appropriation for this account has not been enacted at the time the budget was prepared; therefore, this account is operating under a continuing resolution (P.L. 107-229, as amended). The amounts included for 2003 in this budget reflect the Administration's 2003 policy proposals.

Explanation of Change

Decreases from the FY 2003 request reflect elimination of advance appropriation.

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Program Mission

Pursuant to Public Law 104-106, the National Defense Authorization Act (the Act) for FY 1996, DOE sold Naval Petroleum Reserve 1 (Elk Hills). Section 3415 of the Act required, among other things, that the Department make an offer of settlement to the State of California with respect to its longstanding claims to two parcels of land ("school lands") within NPR-1. The Act also provided for 9 percent of the net sales proceeds to be reserved in a contingent fund in the Treasury for payment to the State, subject to appropriation. The Department's estimate of 9 percent of the net sales proceeds is \$324 million, of which \$298 million has already been deposited into the contingent fund. The Department will adjust the amount in the contingent fund once all divestment related costs have been paid.

In compliance with the Act and in order to remove any cloud over title which could diminish the sale value of the Reserve, the Department entered into a Settlement Agreement with the State on October 11, 1996. The Agreement calls for payment from the contingent fund to the State, subject to appropriation, of 9 percent of the net sales proceeds, payable over a seven-year period (without interest), commencing in Fiscal Year 1999. Under the Settlement Agreement, the first five installments are for \$36,000,000 each year, and the remaining balance is to be paid in two equal installments in years six and seven.

The first installment payment was appropriated in FY 1999. No appropriation was provided in FY 2000, but the FY 2000 Interior and Related Agencies Appropriations Act provided an advance appropriation of \$36 million, which was paid in FY 2001 (second installment). The third and fourth installments of \$36 were paid at the beginning of FY 2002 and FY 2003 respectively. The pending FY 2003 Appropriations Act contains funding for the fifth installment and The FY 2004 request of \$36 million is a placeholder for the sixth installment.

Program Strategic Performance Goals

Complete the requirements of the Settlement Agreement with the State of California.

Performance Indicator

- Installment payments

Annual Performance Targets and Results

FY 2002 Results	FY 2003 Target	FY 2004 Target
Made third installment payment (\$36 million).	Make fourth installment payment (\$36 million) & provide advance appropriation for fifth installment payment (\$36 million).	Make the sixth installment payment (\$36 million placeholder pending completion of divestment activities).

Funding Profile

(dollars in thousands)

	FY 2002 Comp. Approp.	FY 2003 Request	FY 2004 Base	FY 2004 Request	FY 2004 Request vs. Base	
					\$ Change	% Change
Elk Hills School Lands Fund	\$0	\$36,000	\$36,000	\$36,000	\$0	0%
Advance Appropriation	\$36,000	\$36,000	\$36,000	\$0	\$-36,000	-50%
Total, Elk Hills School Lands Fund	\$36,000	\$72,000	\$72,000	\$36,000	\$-36,000	-50%

Funding by Site

(dollars in thousands)

	FY 2002	FY 2003	FY 2004	\$ Change	% Change
State of California	\$0	\$72,000	\$36,000	\$-36,000	-50%

Site Descriptions

The Agreement calls for payment from the contingent fund to the State of California, subject to appropriation, of 9 percent of the net sales proceeds, with respect to its longstanding claims to two parcels of land ("school lands") within NPR-1.

Detailed Program Justification

(dollars in thousands)

	FY 2002	FY 2003	FY 2004
Elk Hills School Lands Fund	\$36,000	\$72,000	\$36,000

Reflects the \$36 million placeholder for year six of seven as required by the Settlement Agreement. The Agreement calls for payment to the State of 9 percent of the net sales proceeds, payable over a seven-year period, without interest.

FY2003 and FY2002 provided funding for installments 3, 4, and 5.

Explanation of Funding Changes

FY 2004 vs. FY 2003 (\$000)

Production and Operations

- Decrease reflects elimination of advance appropriation..... -36,000

Total Funding Change, Elk Hills School Lands Fund..... -36,000

