



# CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 1, 2004

## **S. 2773**

### **Water Resources Development Act of 2004**

*As reported by the Senate Committee on Environment and Public Works  
on June 25, 2004*

#### **SUMMARY**

S. 2773 would authorize the Army Corps of Engineers (Corps) to conduct water resource studies and undertake specified projects and programs for flood control, inland navigation, shoreline protection, and environmental restoration. The bill would authorize the agency to conduct studies on water resource needs and feasibility studies for specified projects and to convey ownership of certain federal properties. Finally, the bill would extend, terminate, or modify existing authorizations for various water projects and would authorize new programs to develop water resources and protect the environment.

Assuming appropriation of the necessary amounts, including adjustments for increases in anticipated inflation, CBO estimates that implementing S. 2773 would cost about \$2.9 billion over the 2005-2009 period and an additional \$4 billion over the 10 years after 2009. (Some construction costs and operations and maintenance would continue or occur after this period.)

S. 2773 also would allow for the spending of certain receipts from hydroelectricity sales associated with Army Corps of Engineers projects for facility planning, operation, maintenance, and upgrades, without further appropriation. Most of the receipts would come from electricity sold by the government's power marketing administrations (PMAs), including the Bonneville Power Administration (BPA). This provision also would direct the PMAs to reduce the maintenance component of the electricity rate charged to customers. The bill would convey parcels of land to various nonfederal entities and would forgive the obligation of some local government agencies to pay certain project costs. Finally, the bill would allow the Corps to collect and spend fees related to training courses and permit processing. CBO estimates that enacting those provisions would increase direct spending by \$803 million in 2005, \$5.3 billion over the 2005-2009 period, and \$10.8 billion over the 2005-2014 period. Enacting the bill would not affect revenues.

S. 2773 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA). Federal participation in water resources projects and programs authorized by this bill would benefit state, local, and tribal governments, and any costs to those governments to comply with the conditions of this federal assistance would be incurred voluntarily.

## ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 2773 is shown in the following table. The costs of this legislation fall within budget functions 300 (natural resources and the environment) and 270 (energy).

**TABLE 1. ESTIMATED BUDGETARY IMPACT OF S. 2773 OVER THE 2005-2009 PERIOD**

	By Fiscal Year, in Millions of Dollars				
	2005	2006	2007	2008	2009
<b>CHANGES IN SPENDING SUBJECT TO APPROPRIATION</b>					
Estimated Authorization Level	599	623	619	593	604
Estimated Outlays	419	609	614	595	595
<b>CHANGES IN DIRECT SPENDING</b>					
Estimated Budget Authority	1,065	1,071	1,134	1,198	1,311
Estimated Outlays	803	981	1,109	1,170	1,274

## BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2773 will be enacted near the beginning of fiscal year 2005 and that the necessary amounts will be appropriated for each fiscal year.

### Spending Subject to Appropriation

S. 2773 would authorize new projects related to environmental restoration, shoreline protection, and navigation. This bill also would modify many existing Corps projects and programs by increasing the amounts authorized to be appropriated to construct or maintain them or by increasing the federal share of project costs. Assuming appropriation of the necessary funds, CBO estimates that implementing this bill would cost \$2.8 billion over the

2005-2009 period and an additional \$4 billion over the 10 years after 2009. For ongoing construction costs of previously authorized projects, the Corps received a 2004 appropriation of \$1.6 billion.

For new water projects specified in the bill, the Corps provided CBO with estimates of annual budget authority needed to meet design and construction schedules. CBO adjusted those estimates to reflect the impact of anticipated inflation during the time between project authorization and appropriation of construction costs. Estimated outlays are based on historical spending rates for Corps projects.

**Significant New Authorizations.** S. 2773 would authorize the Army Corps of Engineers to conduct water resource studies and undertake specified projects and programs for flood control, inland navigation, shoreline protection, and environmental restoration. For example, the bill includes authorizations for enhanced navigation improvements on the Upper Mississippi River at an estimated federal cost of \$1.7 billion and an ecosystem restoration project, also on the Upper Mississippi River, at an estimated federal cost of \$1.46 billion. Another large project authorized by this bill is the Indian River Lagoon project in the Florida Everglades at an estimated federal cost of \$604 million. Construction of those projects would likely take more than 15 years.

**Fish and Wildlife Mitigation.** Section 1011 would amend the Water Resources Act of 1986 to establish a standard for fish and wildlife habitat mitigation on certain Corps projects. S. 2773 would require the Corps to develop a mitigation plan that restores the same number of acres of habitat that would fully replace the hydrologic and ecological functions that are lost because of construction of a Corps project. For this estimate, CBO assumes that this provision would apply to potential projects that are being studied but have not yet been submitted to the Congress for authorization. CBO estimates this provision would have no significant cost. However, it is possible that the Administration could interpret this provision to be applicable to authorized projects that have not yet begun or completed construction. Under that interpretation, this provision would increase future construction costs significantly.

**Deauthorizations.** S. 2773 would withdraw the authority for the Corps to build over 55 projects authorized in previous legislation. Based on information from the Corps, however, CBO does not expect that the agency would begin most of those projects over the next five years. Some do not have a local sponsor to pay nonfederal costs, others do not pass certain tests for economic viability, and still others do not pass certain tests for environmental protection. Consequently, CBO estimates that cancelling the authority to build those projects would provide no significant savings over the next several years.

## **Direct Spending**

Based on information from affected agencies, CBO estimates that enacting S. 2773 would increase direct spending by about \$800 million in 2005 and \$10.8 billion over the 2005-2014 period. Table 2 presents the direct spending components of the bill. Most of the direct spending under the bill would stem from provisions to allow for the spending of certain receipts associated with Corps projects for facility planning, operation, maintenance, and upgrades without further appropriation.

**Improvement of Water Management at Corps of Engineers Reservoirs.** Section 1006 of the bill would designate that all receipts associated with Corps projects be spent, without further appropriation, on operations, maintenance, and upgrades at its facilities. The federal power marketing administrations (including the Bonneville Power Administration) collect receipts from the sale of hydroelectric power at Corps dams. The Corps also collects fees associated with other activities at its projects. Overall, the bill would make available for spending, on average, about \$1 billion per year of those receipts. Because those receipts would otherwise be deposited in the Treasury, CBO estimates that enacting section 1006 would increase direct spending by \$595 million in 2005 and \$9.7 billion over the 2005-2014 period.

The bill specifies how the funds would be spent. Most of the funds, 80 percent, would be spent within the same Corps district from which they are collected. The remaining 20 percent would be available agencywide for any Corps project.

*Spending of Receipts Collected by the Bonneville Power Administration.* The bill would make receipts collected by BPA from the sale of hydroelectric power at Corps dams available for spending by the Corps. Unlike hydroelectricity receipts collected by the other PMAs, all receipts collected by BPA go into a revolving fund and are spent for operating its electricity system and repaying previous appropriations and Treasury borrowing. Because a portion of BPA's generating revenues from Corps dams are used to keep its system functioning, CBO assumes that only those receipts that would be used to repay previous appropriations and Treasury borrowing, that is, BPA's intergovernmental payments, would be available for spending by the Corps.

Under current law, CBO estimates that BPA's intergovernmental payments will be, on average, about \$730 million per year over the 2005-2014 period. Under S. 2773, we assume that such payments would continue to be made but would be spent without further appropriation for operations and maintenance at Corps facilities. BPA's Treasury payments fluctuate from year to year based on how much cash is available at the end of each fiscal year (changing water conditions and electricity prices can swing BPA's annual revenues significantly) and the maturities and interest rates of Treasury bonds issued on BPA's behalf. CBO estimates

that spending of BPA receipts by the Corps would total \$457 million in 2005 and \$7.1 billion over the 2005-2014 period.

*Spending of Receipts Collected by the Other Power Marketing Administrations.* Receipts collected by the Southwestern, Southeastern, and Western Power Administrations from the sale of hydroelectric power at Corps dams are currently deposited in the Treasury. Under this bill, those funds would be spent by the Corps, without further appropriation, for operations and maintenance at its facilities. CBO estimates that spending of PMA receipts by the Corps would total \$117 million in 2005 and \$2.4 billion over the 2005-2014 period.

**TABLE 2. CHANGES IN DIRECT SPENDING UNDER S. 2773**

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
<b>CHANGES IN DIRECT SPENDING</b>										
Improvement of Water Management at Corps Reservoirs										
Estimated Budget Authority	849	889	959	1,028	1,129	909	1,093	1,100	1,107	1,114
Estimated Outlays	595	792	934	1,000	1,092	965	1,060	1,080	1,104	1,111
Loss of Power Marketing Administration Receipts										
Estimated Budget Authority	173	176	180	184	189	192	0	0	0	0
Estimated Outlays	173	176	180	184	189	192	0	0	0	0
Recreation Fees										
Estimated Budget Authority	34	6	-5	-7	-7	-7	-7	-7	-7	-7
Estimated Outlays	27	13	-5	-7	-7	-7	-7	-7	-7	-7
Land Conveyances and Other Direct Spending										
Estimated Budget Authority	8	*	*	-7	*	*	*	*	*	*
Estimated Outlays	8	*	*	-7	*	*	*	*	*	*
Total Changes										
Estimated Budget Authority	1,065	1,071	1,134	1,198	1,311	1,094	1,086	1,093	1,100	1,107
Estimated Outlays	803	981	1,109	1,170	1,274	1,150	1,053	1,073	1,097	1,104

NOTE: \* = less than \$500,000.

*Spending of Receipts Collected by the Corps.* S. 2773 also would allow the Corps to spend any proceeds that it collects in grazing fees, shoreline management permit fees, and municipal and industrial water supply fees. The Corps could spend such funds for operations and maintenance at its facilities. CBO estimates that spending of such receipts would total \$21 million in 2005 and \$288 million over the 2005-2014 period.

*Impact on Future Corps Appropriations.* By making about \$1 billion a year available for operations and maintenance at Corps facilities without further appropriation, the bill could lead to future reductions in the amounts appropriated for such purposes. In fiscal year 2004, the Corps received an appropriation of almost \$2 billion for operations and maintenance costs. Enacting this bill could result in a reduction in future appropriations if the Congress chose to maintain total Corps spending at a level similar to the amount appropriated in 2004. For this estimate, however, CBO assumes that Corps appropriations would remain at current levels and that new spending authorized by the bill would be in addition to what is annually made available.

**Reduction in the Maintenance Component of Electricity Rates.** CBO assumes that section 1006 of S. 2773 would result in an overall reduction in electricity receipts collected by the PMAs. Under current law, electricity sales rates charged by the PMAs are set to recover the cost of generating electricity, including operations and maintenance expenses associated with hydroelectricity generation at Corps projects. Over the 2005-2010 period, the bill would lower the portion of electricity rates charged to PMA customers for Corps-related expenses to 0.22 cents per kilowatt-hour. (BPA rates are explicitly exempted by that provision.)

The PMAs currently charge their electricity customers for Corps-related expenses more than the 0.22 cents per kilowatt-hour that would be mandated by the bill. Such rates range from as much as 1.2 cents per kilowatt-hour to 0.4 cents per kilowatt-hour for the various Corps projects associated with the Western Area Power Administration. CBO estimates that this provision would reduce electricity receipts collected by the PMAs by an average of about \$180 million a year, over the 2005-2010 period.

**Spending of Recreation Fees.** Section 1004 would direct the Corps to establish a new system of recreation fees, including charges for admission to Corps recreation sites and for the use of recreation facilities, visitor centers, equipment, and services. Under the bill, the new fees (which would be based on the value of the admission or service purchased) would replace charges authorized under the more-restrictive fee authority contained in the Land and Water Conservation Fund Act (LWCFA), which currently governs the Corps' recreation fee program. The bill also would authorize the agency to provide recreational services through contractors by leasing federal land or establishing other concession-like arrangements with nonfederal entities. Finally, section 1004 would allow the Corps to retain and spend without

further appropriation all recreation user and admission fees it collects under the LWCFA. CBO estimates that enacting this provision would have a net cost of \$27 million in 2005 and \$21 million over the 2005-2009 period. We estimate the provision would result in a net reduction in direct spending of \$14 million over the next 10 years.

CBO estimates that, once the fee authority that would be provided by this section has been fully implemented, Corps offsetting receipts would increase by \$7 million a year from the current annual level of about \$34 million. (We estimate that the increase would begin in fiscal year 2006 and would initially amount to \$4 million to \$5 million a year because of delays in determining the market value of similar local recreation opportunities and establishing appropriate fee schedules.) We estimate that the contracting and leasing provisions of this section would have no effect on the budget because such authorities already exist.

CBO further estimates that the authority that would be provided by the bill to spend without appropriation any offsetting receipts earned under the LWCFA would increase direct spending by \$27 million in fiscal year 2005 and by \$17 million in 2006. After the Corps implements the new fee program mandated by the bill (in mid-2006), no additional receipts would be earned under the LWCFA, and the authority to spend such amounts would no longer be in effect. Because the bill would not specifically authorize the appropriation of, or spending of, any fees collected under the new program, CBO assumes that those recreation receipts would be deposited into the general fund of the Treasury.

**Various Land Conveyances.** S. 2773 would authorize the Corps to convey certain land in Alabama, Pennsylvania, Georgia, and Missouri. CBO estimates that those conveyances would have no significant impact on the federal budget.

The bill also would convey at fair market value 13 acres of land and the structures on the land, including a loading dock with mooring facilities, in Alabama. In addition, S. 2773 would convey at fair market value 650 acres at the Richard B. Russell Lake in South Carolina to the state. Based on information from the Corps, CBO estimates that the federal government would receive about \$7 million in 2008 from this sale.

**Arcadia Lake, Oklahoma.** Section 5303 would eliminate the obligation of the city of Edmond, Oklahoma, to pay outstanding interest due on its water storage contract with the Corps. CBO estimates that this provision would result in a loss of receipts of about \$8 million in 2005.

**Waurika Lake Project.** Section 5304 would eliminate the obligation of the Waurika Project Master Conservancy District in Oklahoma to pay its outstanding debt related to the construction of a water conveyance project. Due to an accounting error, the Corps

inadvertently undercharged the district for costs associated with a land purchase related to the water project in the early 1980s. Under terms of the construction contract, the district is required to pay all costs associated with building the project, including the full cost of the land purchases. CBO estimates that enacting this section would cost less than \$200,000 a year over the 2005-2014 period.

**Funding to Process Permits.** Section 5401 would extend the Corps' current authority for two more years to accept and spend funds contributed by private firms to expedite the evaluation of permit applications submitted to the Corps. CBO estimates that the Corps would accept and spend less than \$500,000 during each year of this extension and that the net budgetary impact of this provision would be negligible.

**Training Funds.** Section 1003 would allow the Corps to collect and spend fees collected from the private sector for training courses. CBO estimates that the Corps would accept and spend less than \$500,000 annually and that the net budgetary impact would be negligible.

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

S. 2773 contains no intergovernmental or private-sector mandates as defined in UMRA. Federal participation in water resources projects and programs authorized by this bill would benefit state, local, and tribal governments, and any costs to those governments to comply with the conditions of this federal assistance would be incurred voluntarily.

## **PREVIOUS CBO ESTIMATE**

On September 3, 2003, CBO transmitted a cost estimate for H.R. 2557, the Water Resources Development Act of 2003, as ordered reported by the House Committee on Transportation and Infrastructure on July 23, 2003. CBO estimated that enacting H.R. 2557 would increase direct spending by \$32 million over the 2004-2013 period. In addition, assuming appropriation of the necessary amounts, CBO estimated that implementing H.R. 2557 would cost about \$2.6 billion over the 2004-2008 period. The differences in the cost estimates stem from different levels of authorized funding.

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