CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

July 29, 2008

S. 27
San Joaquin River Restoration Settlement Act

As reported by the Senate Committee on Energy and Natural Resources on June 25, 2008

SUMMARY

S. 27 would implement a judicial settlement between the federal government—specifically, the Bureau of Reclamation's Friant Division of the Central Valley Project (CVP) in California—and a coalition of conservation and fishing groups. The bill would authorize and direct the Secretary of the Interior to design and construct improvements to the San Joaquin River; modify operations of the Friant Dam; acquire water or water rights; and implement terms of the settlement relating to recapture and reuse of water to minimize water supply disruptions to the Friant Dam.

CBO estimates that enacting this legislation would increase net direct spending by $190 million over the 2009-2018 period. (It also would increase direct spending by about $200 million over the 2019-2040 period.) In addition, CBO estimates that implementing S. 27 would increase discretionary spending by $271 million over the 2009-2018 period, assuming appropriation of the authorized amounts. Additional discretionary spending would occur after 2018 for further construction, operation, and maintenance of the project.

If the Secretary of the Interior acquires property through eminent domain to implement the settlement, S. 27 would impose an intergovernmental or private-sector mandate as defined in the Unfunded Mandates Reform Act (UMRA). The cost of the mandate would be the fair market value of the property and any expenses incurred by the owners to transfer that property to the federal government. CBO expects that the Secretary would use that authority sparingly and that the cost of the mandate would fall below the annual threshold established in UMRA for intergovernmental and private-sector mandates ($68 million in 2008 and $136 million in 2008, respectively, adjusted annually for inflation).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 27 is shown in the following table. The costs of this legislation fall within budget function 300 (natural resources and environment).

	By Fiscal Year, in Millions of Dollars											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2009-2013	2009-2018
CHANGES IN DIRECT SPENDING												
Early Repayment of Capital Debt												
Estimated Budget Authority	0	0	-33	-33	-33	-33	11	11	11	11	-99	-88
Estimated Outlays	0	0	-33	-33	-33	-33	11	11	11	11	-99	-88
Authority to Spend Certain Collections												
Estimated Budget Authority	19	19	52	52	52	52	8	8	8	8	194	278
Estimated Outlays	15	15	37	50	53	53	20	19	8	8	170	278
Total Changes in Direct Spending Under S. 27												
Estimated Budget Authority	19	19	19	19	19	19	19	19	19	19	95	190
Estimated Outlays	15	15	4	17	20	20	31	30	19	19	71	190
CHANGES IN SPENDING SUBJECT TO APPROPRIATION												
Estimated Authorization Level	8	12	12	72	42	57	32	42	7	7	146	291
Estimated Outlays	5	11	12	62	37	57	31	42	7	7	127	271

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 27 will be enacted near the end of fiscal year 2008 and that the authorized amounts will be appropriated for each fiscal year.

Direct Spending

S. 27 would allow CVP contractors (project users) to repay the capital debt incurred for the original construction of the Friant Dam sooner than currently scheduled and would authorize the expenditure of certain federal collections that, under current law, cannot be spent without an appropriation.

CBO estimates that enacting those changes would increase direct spending by $190 million over the 2009-2018 period.

Early Repayment of Capital Debt. Section 110 would require the Secretary to change certain existing contracts involving the Central Valley Project. That change would affect arrangements for paying a portion of the project's cost. Under the new agreements, the users of CVP's Friant Division would be required to repay their share of the capital investment in the project—either in a lump sum or on an accelerated schedule—by the end of 2014. CBO expects that enacting section 110 would cause CVP users to make four equal payments totaling $176 million over the 2011-2014 period, rather than paying $11 million annually through 2030 as they would under current law. The net effect of the expedited repayment schedule would be an increase in collections of $88 million over the 2011-2018 period and a loss of $11 million per year from 2019 to 2030.

By repaying the capital cost of the project early, the Friant contractors would repay an amount greater than the cost of their future capital repayments when computed on a net present value basis. Section 110 stipulates that the contractors would repay their capital obligation discounted at one-half the 20-year Constant Maturity Treasury (CMT) rate. That would result in a payment of $176 million, instead of $142 million if the 20-year CMT rate were used to calculate the net present value of the contractors' capital repayments.

The legislation defines that difference—about $34 million—as the financing cost to the contractors of repaying their capital obligation ahead of schedule. In return for incurring this added cost, the legislation would provide two forms of relief to the contractors over the 2020-2039 period. First, the Secretary would be required to reduce the surcharge that contractors pay for environmental restoration, resulting in a loss of about $3 million per year of receipts to the government. Second, the Secretary would be required to provide a one-time payment to the contractors of $12 million in 2020. The one-time payment, combined with the net present value of the reduction in the Friant surcharge, would be roughly equivalent to $34 million.

Changes in Spending Authority. S. 27 would allow certain federal collections to be spent by the Bureau of Reclamation without further appropriation. CBO estimates that making those collections available without further appropriation would increase direct spending by $278 million over the 2009-2018 period.

Under section 109, payments made by Friant contractors would be deposited into a new San Joaquin River Restoration Fund and would be available for spending without further appropriation. The collections that would be deposited into the new fund include amounts paid for the capital cost of the Friant Dam (an estimated $11 million a year through 2010) and amounts collected from the Friant surcharge described above (about $8 million annually). Those collections are currently deposited in the Reclamation Fund and the Central Valley Project Restoration Fund, respectively. The new fund also would receive the $176 million that CBO estimates would be paid under the new repayment contracts required by section 110. Deposits into the fund would be available, without further appropriation, to implement the settlement.

Spending Subject to Appropriation

S. 27 would authorize the appropriation of up to $250 million to help pay for improvements to the Cental Valley watershed, contingent upon the receipt of matching funds from the state of California. By implementing the settlement agreement, the bill also would authorize the appropriation of up to $2 million per year from the Central Valley Project Restoration Fund. The bill would require the Secretary to provide assistance to California State University in Fresno to develop an Integrated Regional Water Management Plan. Finally, the bill would authorize the Secretary to construct improvements at certain facilities in the Friant Division at a cost of about $50 million. Assuming that California would match federal funding and that appropriation of the authorized amounts would be made as needed, CBO estimates that implementing those provisions of S. 27 would cost $271 million over the 2009-2018 period. Additional spending would occur after 2018 for project construction, operation, and maintenance.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

If the Secretary of the Interior acquires property through eminent domain to implement the settlement, S. 27 would impose an intergovernmental or private-sector mandate as defined in UMRA. The cost of the mandate would be the fair market value of the property and any expenses incurred by the owners to transfer that property to the federal government. CBO expects that the Secretary would use that authority sparingly and that the cost of the mandate would fall below the annual threshold established in UMRA for intergovernmental and private-sector mandates ($68 million in 2008 and $136 million in 2008, respectively, adjusted annually for inflation).

In cases where property is acquired through eminent domain, the Department of the Interior would have to compensate property owners for the fair market value of the property. In addition, the bill would require that the original property owners get the right-of-first-refusal to repurchase such property if the Secretary determines that it is no longer necessary for implementation of the settlement.

Water restoration and management activities authorized in the bill would benefit state, local, and tribal governments that implement activities to restore wildlife and water flow of the San Joaquin River in the state of California. Any costs those governments might incur for those activities, including matching contributions, would result from complying with conditions of federal assistance.

PREVIOUS ESTIMATE

On April 18, 2007, CBO transmitted a cost estimate for H.R. 24, the San Joaquin River Restoration Settlement Act, as introduced in the House of Representatives on January 4, 2007. On May 5, 2008, CBO transmitted a cost estimate for H.R. 4074, the San Joaquin River Restoration Settlement Act, as ordered reported by the House Committee on Natural Resources on November 15, 2007. The three versions of the San Joaquin River Restoration Settlement Act are similar but provide different funding mechanisms. The cost estimates reflect those differences.

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