



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

December 11, 2014

### **H.R. 3981** **Accelerated Revenue, Repayment, and Surface Water Storage Enhancement Act**

*As ordered reported by the House Committee on Natural Resources  
on September 18, 2014*

#### **SUMMARY**

H.R. 3981 would authorize the Bureau of Reclamation (BOR) to convert some water service contracts in 17 western states to repayment contracts. Water users that choose to convert their contracts would be required to accelerate repayment of their share of the capital costs of constructing the affected projects. The bill also would authorize the BOR to spend receipts attributable to accelerated payments to construct new water projects.

Based on information from the BOR, CBO estimates that enacting the bill would have no net effect on direct spending over the next 10 years because increases in offsetting receipts from accelerated repayments (net of annual payments that would otherwise occur under current law) would be offset by increases in direct spending for constructing new projects over the 2015-2024 period. Additionally, because we expect nonfederal contractors would finance accelerated payments with bonds exempt from federal taxation, the staff of the Joint Committee on Taxation (JCT) estimate that enacting the legislation would lead to a decrease in revenues of \$43 million over the 2015-2024 period. In total, CBO estimates that those changes would increase budget deficits over that 10-year period by \$43 million. Because the legislation would affect direct spending and revenues, pay-as-you-go procedures apply.

H.R. 3981 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary effect of H.R. 3981 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												
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
<b>CHANGES IN DIRECT SPENDING</b>												
Net Change in Repayments <sup>a</sup>												
Estimated Budget Authority	-55	-152	-180	-104	2	32	32	32	32	32	-489	-330
Estimated Outlays	-55	-152	-180	-104	2	32	32	32	32	32	-489	-330
Construction of Water Storage Projects												
Estimated Budget Authority	0	0	0	300	30	0	0	0	0	0	330	330
Estimated Outlays	0	0	0	120	72	51	34	27	20	6	192	330
Total Changes												
Estimated Budget Authority	-55	-152	-180	197	32	32	32	32	32	32	-159	0
Estimated Outlays	-55	-152	-180	16	74	83	66	59	52	38	-297	0
<b>CHANGES IN REVENUES</b>												
Estimated Revenues <sup>b</sup>	*	-1	-2	-4	-6	-6	-6	-6	-6	-6	-13	-43
<b>NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES</b>												
Effect on the Deficit	-55	-151	-178	20	80	89	72	65	58	44	-284	43

Note: Components may not sum to totals because of rounding.

a. After 2024, the net loss in offsetting receipts would total \$530 million, CBO estimates.

b. For revenues, negative numbers indicate a decrease in revenues and thus an increase in the deficit. Estimates prepared by the staff of the Joint Committee on Taxation.

## BASIS OF ESTIMATE

For this estimate, CBO assumes that H.R. 3981 will be enacted near the end of 2014.

### Direct Spending

**Net Change in Repayments.** Under current law, the BOR delivers water to users under nearly 600 water service contracts. In addition to paying for the water, those users also pay for a portion of the estimated capital costs of constructing the reservoirs and conveyance systems that store and deliver water. Those 600 contractors pay the U.S. Treasury about \$90 million each year for their share of construction costs on an outstanding obligation of about \$2.4 billion.

Once construction of an entire project is complete, new contracts are negotiated (known as repayment contracts) with annual payments adjusted to reflect the final capital costs. The repayment period under those contracts cannot exceed 40 years and water users typically cannot pay their share of construction costs on an accelerated schedule.<sup>1</sup>

H.R. 3981 would authorize the BOR to convert water service contracts to repayment contracts if the contractor requests it. Under the bill, users that choose to convert would be required to repay their share of the capital investment in the project on an accelerated schedule. Irrigation contractors would make accelerated payments that are lower than the total payments they would make under current law. They would pay, either in one lump sum or in equal installments over three years, the present value of their future contract payments discounted at one-half of the 20-year maturity rate for Treasury securities. Municipal and industrial contractors would prepay their entire outstanding principal balance.

Based on information from the BOR, CBO expects that about 35 percent of current users would choose to convert to repayment contracts in the first few years after enactment of H.R. 3981. CBO estimates the total increase in receipts from accelerated payments under the bill would be \$639 million over the 2015-2024 period. During the same period there would be a corresponding loss in payments that would otherwise occur under current law of \$309 million. On balance, CBO estimates that there would be a net increase in receipts from accelerated payments of \$330 million over the 2015-2024 period. That 10-year increase in net receipts would be more than offset by a corresponding reduction in payments that would otherwise occur in later years. Over the 2025-2050 period, CBO estimates that such forgone receipts would total \$530 million.

**Construction of Water Storage Projects.** Three years after enactment, the net additional receipts collected from users would be available to be spent, without further appropriation, for new water projects. CBO estimates direct spending would increase by \$330 million over the 2015-2024 period. H.R. 3981 would require the nonfederal sponsors of those new projects to repay 100 percent of the projects' costs within 40 years. CBO expects that those repayments would begin after 2024 because of the amount of time required to construct those new projects. Funds received from such repayments would continue to be available without appropriations for constructing new water projects.

---

1. Agreements between the federal government and water users for delivering water for irrigation, municipal, and industrial purposes from federally built projects are generally governed by either water service contracts or repayment contracts. Water service contracts are used when construction of a project is still in progress and the final costs—including water users' share of those costs—are not yet known. They are also used when a water user does not want a permanent contract. Repayment contracts are available to water users when final construction costs and the user's share of those costs are known.

## Revenues

Some of the accelerated payments to the federal government would be financed with bonds that are exempt from federal taxation. JCT estimates issuing those bonds would lead to a revenue loss of \$43 million over the next 10 years.

## PAY-AS-YOU-GO CONSIDERATIONS

The Statutory Pay-As-You-Go Act of 2010 establishes budget-reporting and enforcement procedures for legislation affecting direct spending or revenues. The net changes in outlays and revenues that are subject to those pay-as-you-go procedures are shown in the following table.

	By Fiscal Year, in Millions of Dollars											
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2015-2019	2015-2024
<b>NET INCREASE OR DECREASE (-) IN THE DEFICIT</b>												
Statutory Pay-As-You-Go Impact	-55	-151	-178	20	80	89	72	65	58	44	-284	43
Memorandum:												
Changes in Outlays	-55	-152	-180	16	74	83	66	59	52	38	-297	0
Changes in Revenues	0	-1	-2	-4	-6	-6	-6	-6	-6	-6	-13	-43

## INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 3981 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

### ESTIMATE PREPARED BY:

Federal Costs: Aurora Swanson and the staff of the Joint Committee on Taxation  
Impact on State, Local, and Tribal Governments: Jon Sperl  
Impact on the Private Sector: Tristan Hanon

### ESTIMATE APPROVED BY:

Theresa Gullo  
Deputy Assistant Director for Budget Analysis