



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

September 6, 2016

S. 2616

A bill to modify certain cost-sharing and revenue provisions relating to the Arkansas Valley Conduit, Colorado

*As ordered reported by the Senate Committee on Energy and Natural Resources
on July 13, 2016*

SUMMARY

S. 2616 aims to facilitate the construction of the Arkansas Valley Conduit (AVC), a component of the Fryingpan-Arkansas Project designed to deliver potable water to six rural counties in Colorado. Based on information from the Bureau of Reclamation (BOR), the Southeastern Colorado Water Conservancy District, and Colorado state agencies, CBO estimates that enacting S. 2616 would increase direct spending by \$60 million over the 2017-2026 period and by \$108 million after 2026. Because the legislation would affect direct spending, pay-as-you-go procedures apply. Enacting S. 2616 would not affect revenues. The new funding and financing activities authorized in S. 2616 could lead to a reduction in the need for appropriated funds to complete the AVC.

CBO estimates that enacting the bill would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

S. 2616 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 S. 2616 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											2017-	2017-
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2021	2026	
INCREASES IN DIRECT SPENDING													
Use of Borrowed Funds for AVC													
Construction													
Estimated Budget Authority	0	0	5	5	5	5	5	5	5	5	15	40	
Estimated Outlays	0	0	5	5	5	5	5	5	5	5	15	40	
Spending of Project Receipts													
Estimated Budget Authority	0	0	0	0	0	4	4	4	4	4	0	20	
Estimated Outlays	0	0	0	0	0	4	4	4	4	4	0	20	
Total Changes													
Estimated Budget Authority	0	0	5	5	5	9	9	9	9	9	15	60	
Estimated Outlays	0	0	5	5	5	9	9	9	9	9	15	60	

Note: Components may not sum to totals because of rounding; AVC = Arkansas Valley Conduit.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2616 will be enacted near the end of 2016. S. 2616 would authorize the BOR to effectively obtain and repay a construction loan for part or all of the AVC that would be arranged by the Southeastern Colorado Water Conservancy District (the district), the nonfederal sponsor for the AVC. The bill also would authorize the BOR to spend certain receipts from the sale of excess capacity for water storage at the Fryingpan-Arkansas Project to construct the AVC.

Based on an analysis of information from the BOR about project costs and scheduling plans for constructing the AVC, and assuming the new funding and financing authorities provided in the bill are used, CBO estimates that planning and designing of the project would be completed in 2018 and that construction would be completed 20 years later, in 2038.

In 2011, the BOR estimated that completing construction of the AVC would cost \$400 million. In the last few years \$21 million was appropriated to begin design and construction work on the project. S. 2616 would not change the total cost of completing the AVC, however, it would change how those funds are provided by the Congress and it would reduce the portion of total project costs that would be reimbursed by the local water district.

Under current law, any funds to complete the AVC will be provided in annual appropriation acts. S. 2616 aims to facilitate the construction of the AVC by authorizing

a combination of funding sources, including permitting the BOR to spend roughly \$68 million of receipts from the sale of excess water storage capacity over the 2022-2038 period and authorizing the BOR to obtain a loan (through the district) from the state of Colorado to finance about \$100 million of the project costs over the next 20 years. Net federal costs to construct the AVC over the next several decades would increase under the bill because the Southeastern Colorado Water Conservancy District would be responsible for repaying a smaller portion of project costs. Furthermore interest costs of the construction loan provided by Colorado would probably be greater than if the U.S. Treasury had borrowed those amounts. Those costs, however, would not be incurred until repayment begins in 2039.

Direct Spending

Nonfederal Financing of AVC Construction. S. 2616 would effectively authorize the BOR to borrow and repay funds from Colorado state agencies to construct the AVC.¹ Under the bill, the nonfederal financing of construction costs would be arranged through the local water district. Based on information from the BOR, the district, and the state, CBO estimates that the district would obtain financing of \$100 million for constructing the AVC and that the loan would be dispersed in roughly \$5 million increments over the 20-year construction period.² CBO estimates that implementing those provisions would increase direct spending by \$40 million over the 2017-2026 period and \$60 million after 2026.

Spending of Project Receipts. Starting in 2022, S. 2616 would authorize the BOR to spend certain project receipts without further appropriation to construct the AVC. Under current law, those receipts result from excess capacity charges to water users for storage and conveyance services during periods when all available water storage capacity is not needed to meet the authorized purposes of the project. In the last few years, those receipts have totaled about \$4 million each year.

CBO estimates that implementing this provision would increase direct spending by \$20 million over the 2017-2026 period and by \$48 million after 2026.

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1. Allowing the district to borrow on behalf of the BOR and for the BOR to then use those amounts is considered federal borrowing, a form of mandatory budget authority. Receipt of the borrowed amounts would be considered a means of financing and thus would not be reflected in the budget. However, the budget would record the obligations incurred by using borrowed amounts at the time that such obligations occur. Outlays would be recorded to reflect the timing and pace of capital expenditures to construct the AVC.
 2. S. 2616 would not limit the amount of financing that the district could obtain from Colorado. If future appropriations for the AVC are lower (or higher) than assumed, the loan could be higher (or lower) than \$100 million and direct spending would be higher (or lower).

Nonfederal Cost Share of the AVC. Under current law, the district will be responsible for repaying the federal government 35 percent of AVC construction costs (approximately \$400 million). Under the bill this repayment obligation would remain at 35 percent, but it would not apply to the portion of the project funded through amounts borrowed from Colorado state agencies (about \$100 million), or to the construction costs covered by spending charges for excess water storage capacity (about \$68 million). Repayment of the nonfederal share of the AVC would not begin until construction is complete in 2038, thus no changes in the nonfederal cost share are reflected in this cost estimate that covers the 2017-2026 period.

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											2016-	2016-
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2021	2026
NET INCREASE IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	0	0	5	5	5	9	9	9	9	9	15	60

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

S. 2616 contains no intergovernmental mandates as defined in UMRA. The bill would benefit the Southeastern Colorado Water Conservancy District by allowing the district to obtain nonfederal financing to construct a federal water project. Any costs incurred by the district under the agreement with the federal government to secure financing, including cost-sharing contributions, would result from complying with conditions of federal assistance.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

S. 2616 contains no private-sector mandates as defined in UMRA.

INCREASE IN LONG-TERM NET DIRECT SPENDING AND DEFICITS

CBO estimates that enacting the bill would not increase net direct spending or on-budget deficits by more than \$5 billion in any of the four consecutive 10-year periods beginning in 2027.

ESTIMATE PREPARED BY:

Federal Spending: Aurora Swanson
Impact on State, Local, and Tribal Governments: Jon Sperl
Impact on the Private Sector: Amy Petz

ESTIMATE APPROVED BY:

H. Samuel Papenfuss
Deputy Assistant Director for Budget Analysis