



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 12, 2016

S. 2902 **Western Water Supply and Planning Enhancement Act of 2016**

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

SUMMARY

S. 2902 would direct the Bureau of Reclamation (BOR) to convert water service contracts with water districts in 17 western states to repayment contracts if a contractor requests it, which would allow contractors to repay their share of capital costs to the federal government earlier than would otherwise occur under current law. CBO estimates that accelerating those payments would, on net, increase offsetting receipts, which are treated as reductions in direct spending, by \$635 million over the next 10 years. Additionally, the staff of the Joint Committee on Taxation (JCT) expects that some nonfederal water contractors would finance those accelerated payments to the government with bonds that are exempt from federal taxation. JCT estimates that enacting the legislation would decrease revenues by \$77 million over the 2017-2026 period.

On net, CBO estimates that those changes in direct spending and revenues would decrease budget deficits over that 10-year period by \$558 million. Because enacting the bill would affect direct spending and revenues, pay-as-you-go procedures apply.

S. 2902 also would authorize multiple water projects. Based on information from BOR and the Bureau of Indian Affairs (BIA), CBO estimates that implementing those provisions would cost \$319 million over the next five years and \$669 million over the 2017-2026 period, assuming appropriation of the authorized and estimated amounts.

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. 2902 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. 2902 is shown in table 1. The costs of this legislation fall within budget function 300 (natural resources and environment).

TABLE 1. SUMMARY OF BUDGETARY EFFECTS UNDER S. 2902

	By Fiscal Year, in Millions of Dollars											2017- 2021	2017- 2026
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026			
INCREASES OR DECREASES (-) IN DIRECT SPENDING													
Estimated Budget Authority ^a	-170	-350	-396	-165	39	83	82	81	81	80	-1,042	-635	
Estimated Outlays	-170	-350	-396	-165	39	83	82	81	81	80	-1,042	-635	
DECREASES IN REVENUES													
Estimated Revenues ^b	*	-2	-4	-7	-9	-11	-11	-11	-11	-11	-22	-77	
NET INCREASE OR DECREASE (-) IN THE DEFICIT FROM CHANGES IN DIRECT SPENDING AND REVENUES													
Effect on Deficit	-170	-348	-392	-158	48	94	93	92	92	91	-1,020	-558	
INCREASES IN SPENDING SUBJECT TO APPROPRIATION													
Estimated Authorization Level	50	75	90	77	78	78	65	66	67	68	370	714	
Estimated Outlays	27	54	81	80	77	78	70	68	67	67	319	669	

Note: Components may not sum to totals because of rounding. * = between zero and -\$500,000.

a. CBO estimates that offsetting receipts would decline by \$1.1 billion in years after 2026 for a net loss of about \$470 million over the next 30 years.

b. Estimates prepared by the staff of the Joint Committee on Taxation.

BASIS OF ESTIMATE

For this estimate, CBO assumes that S. 2902 will be enacted near the end of 2016.

Direct Spending

BOR delivers water under 860 water service and repayment contracts in 17 western states. In addition to paying for the water, contractors also pay for a portion of the estimated capital costs of constructing the reservoirs and conveyance systems that store and deliver that water. CBO estimates that in each of the next several years, those contractors will pay about \$245 million annually for their share of construction costs (including interest) to the federal government. Collectively those water contractors have

an outstanding obligation to the government of about \$5.5 billion (including principal and interest) over the next 30 years.

Generally, BOR contractors receive water under service contracts until construction of an entire project is complete. At that time, 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 contractors typically cannot pay their share of the construction costs on an accelerated schedule.¹

S. 2902 would require BOR to convert any water service contract to a repayment contract if the contractor requests it. Amounts due under such a repayment contract would be based on an estimate of final costs if construction of the project is not yet complete. Under the bill, contractors that choose to convert would be required to repay their share of the capital costs of the project on an accelerated schedule. Those contractors that are already operating under repayment contracts would have the option to repay the government on an accelerated schedule.

Under the bill irrigation contractors 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 be required to prepay their entire outstanding principal balance in a lump sum.

Based on information from BOR about the terms of current water contracts, CBO expects that about 35 percent of the current contractors would choose to convert to repayment contracts in the first few years after the bill's enactment. CBO estimates the receipts from those accelerated payments would total \$1.4 billion over the 2017-2026 period. During the same period there would be a corresponding loss of annual repayments (including applicable interest costs) that would otherwise occur totaling \$807 million. On net, under S. 2902, CBO estimates that offsetting receipts would increase by \$635 million over the 2017-2026 period. However, the reduction in offsetting receipts after 2026 would be greater than the net increase in receipts that would occur over the 2017-2026 period. CBO estimates that the net loss in offsetting receipts from enacting this provision would total about \$470 million over the next 30 years.

1. Agreements between the federal government and water contractors 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 the contractors' share of those costs—are not yet known. They are also used when a contractor does not want a permanent contract. Repayment contracts are available to contractors when final construction costs and the contractor's share of those costs are known.

Revenues

JCT estimates that some of the accelerated payments from water districts to the federal government would be financed with bonds that are exempt from federal taxation and that issuing those bonds would lead to a revenue loss of \$77 million over the next 10 years.

Spending Subject To Appropriation

As shown in Table 2, CBO estimates that implementing the discretionary components of the bill would cost \$319 million over the 2017-2021 period and \$669 million over the 2017-2026 period, assuming appropriation of the authorized and estimated amounts.

TABLE 2. INCREASES IN SPENDING SUBJECT TO APPROPRIATION UNDER S. 2902

	By Fiscal Year, in Millions of Dollars										2017-	2017-
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2021	2026
INCREASES IN SPENDING SUBJECT TO APPROPRIATION												
Indian Irrigation Projects												
Estimated Authorization Level	31	31	32	32	32	32	32	32	32	32	158	320
Estimated Outlays	15	23	30	32	32	32	32	32	32	32	133	294
Rural Water Projects												
Estimated Authorization Level	3	14	30	31	32	33	20	21	22	22	110	229
Estimated Outlays	2	9	22	28	31	32	25	23	21	22	93	216
Colorado River Basin Projects												
Authorization Level	8	8	8	8	8	8	8	8	8	8	40	80
Estimated Outlays	5	7	8	8	8	8	8	8	8	8	36	76
Accelerating Project Reviews												
Estimated Authorization Level	6	6	6	6	5	5	5	5	5	5	29	54
Estimated Outlays	4	5	6	6	5	5	5	5	5	5	26	51
Other Provisions												
Estimated Authorization Level	2	15	15	0	0	0	0	0	0	0	32	32
Estimated Outlays	1	10	15	6	0	0	0	0	0	0	32	32
Total Increases												
Estimated Authorization Level	50	75	90	77	78	78	65	66	67	68	370	714
Estimated Outlays	27	54	81	80	77	78	70	68	67	67	319	669

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

Indian Irrigation Projects. S. 2902 would establish a new Indian Irrigation Fund and transfer \$31 million from the existing Reclamation Fund into the proposed fund each year over the 2017-2038 period. The bill would authorize the appropriation of those annual deposits (plus any interest credited to the fund) to maintain irrigation projects owned by

the federal government and operated by BIA. According to BIA, the agency operates 18 Indian irrigation projects that would be eligible to receive appropriated funds under the bill. CBO estimates that implementing those provisions would cost \$294 million over the 2017-2026 period and about \$390 million thereafter.

Rural Water Projects. S. 2902 would authorize the construction of two water projects for treatment, storage and delivery of water to rural communities in Montana and North Dakota. Based on information from BOR, CBO estimates that the federal share (65 percent) of costs for constructing those projects would total \$216 million over the 2017-2026 period. Those projects and their respective costs are described below:

- The Dry-Redwater Rural Water Project in Montana would construct water treatment and distribution facilities to deliver water to existing storage tanks in rural communities in eastern Montana and a small area in northwestern North Dakota. Based on information from BOR, including adjustments for anticipated inflation as specified by the bill, CBO estimates that the federal share of costs for constructing this project would total \$151 million over the 2017-2026 period and about \$57 million after 2026.
- The Musselshell-Judith Rural Water Project located in Montana would construct groundwater wells and distribution facilities to deliver water to rural communities in central Montana. Based on information from BOR, including adjustments for anticipated inflation as specified by the bill CBO estimates that the federal share of costs for constructing the project would total \$65 million over the 2017-2026 period.

Colorado River Basin Projects. S. 2902 would permanently authorize a pilot program to construct water storage projects on some reservoirs in the Colorado River Basin that is scheduled to expire in 2018. The bill would authorize the appropriation of \$8 million a year to provide grants to certain public entities for projects that would increase water storage capacity. The bill also would authorize BOR to provide grants for renewing or implementing existing agreements with nonfederal public entities that focus on conserving water to mitigate drought conditions. Based on historical spending patterns for similar projects, CBO estimates that implementing those provisions would cost \$76 million over the 2017-2026 period.

Accelerating Project Reviews. S. 2902 would establish BOR as the lead federal agency to coordinate with states, other federal agencies, and the public to:

- Expedite environmental reviews and evaluations of permit applications,
- Facilitate early detection and resolution of environmental issues, and

- Construct a publicly accessible database that would include a list of requirements for the study for each project and information on the progress toward completing each requirement.

S. 2902 also would require BOR to identify water projects across the United States that were excluded from environmental reviews because they were determined to have no significant effect on the environment. The agency would be tasked with developing guidelines for new exclusions based on the characteristics of those projects.

S. 2902 would limit BOR to spending \$3 million or less on studies conducted as part of its reviews; those studies would have to be completed within three years. If a study could not be completed within that period for \$3 million or less, BOR would be required to provide written notice to the Congress and any other agencies involved. Finally, the bill would direct BOR to annually solicit proposals to build water projects through the *Federal Register* and to report to the Congress on the preliminary costs and benefits of each of those proposals.

Based on information from BOR and other federal agencies, CBO estimates that the additional activities required to implement those provisions would cost \$51 million over the 2017-2026 period for additional staff to coordinate agency reviews, consolidate project data and documentation, and conduct reviews.

Other Provisions. Other costs under S. 2902 would stem from provisions that would direct the Corps, in coordination with BOR, to identify 15 federal and nonfederal projects designed to control the risk of flooding in states that were declared federal disaster areas in 2015 because of drought. Based on information from the BOR and the Army Corps of Engineers, CBO estimates that implementing those provisions would cost \$31 million over the 2017-2026 period.

Finally, the bill would direct BOR to contract with the National Academy of Sciences (NAS) to conduct a study to evaluate the efforts to control saltcedar in combination with increasing water supplies and improving riparian habitats.² S. 2902 would direct BOR to use the results of the NAS study and develop a plan to control the spread of saltcedar. Based on information from BOR, CBO estimates that implementing those provisions would cost \$1 million over the 2017-2026 period.

2. Saltcedar (also called tamarisk) is considered an invasive species in the western United States. It is a small shrub that displaces native plants and harms riparian ecosystems.

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 Table 3.

TABLE 3. PAY-AS-YOU-GO CONSIDERATIONS FOR S. 2902

	By Fiscal Year, in Millions of Dollars											2016-	2016-
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2021	2026
NET INCREASE OR DECREASE (-) IN THE DEFICIT													
Statutory Pay-As-You-Go Impact	0	-170	-348	-392	-158	48	94	93	92	92	91	-1,020	-558

Memorandum:													
Changes in Outlays	0	-170	-350	-396	-165	39	83	82	81	81	80	-1,042	-635
Changes in Revenues	0	0	-2	-4	-7	-9	-11	-11	-11	-11	-11	-22	-77

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S. 2902 contains no intergovernmental or private-sector mandates as defined in UMRA. State, local, and tribal governments, as well as other public entities that manage water infrastructure, would benefit from greater flexibility provided in the bill to study, permit, manage, and finance water projects supported by federal agencies. Any costs incurred by those entities under agreements with federal agencies, including cost-sharing contributions, would result from complying with conditions of federal assistance. The bill also would benefit water user associations by allowing them to prepay what they own in remaining capital obligations to the federal government for their use of federal water infrastructure.

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.

PREVIOUS CBO ESTIMATE

On July 14, 2015, CBO transmitted a cost estimate for H.R. 2898, the Western Water and American Food Security Act of 2015, as ordered reported by the House Committee on Natural Resources on July 9, 2015. Some of the provisions of H.R. 2898 are similar to those in S. 2902—including those regarding the accelerated repayment of debt and expediting project reviews. CBO’s estimate of the cost of those provisions reflect current and new information about the status of debt repayments.

On March 30, 2015, CBO transmitted a cost estimate for S. 438, the IRRIGATE Act, as ordered reported by the Senate Committee on Indian Affairs on March 30, 2015. S. 438 and S. 2902 have similar provisions that would establish a new Indian Irrigation Fund.

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