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U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

Opening Statement by
Chairman Tom McClintock
Before the Subcommittee on Water and Power
Legislative Hearing on H.R. _____ and S. 997
Wednesday, June 6, 2012

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The Subcommittee meets today to consider S. 997 to extend a water contract between the United States and the East Bench Irrigation District in southwestern Montana until December 31, 2013 or until a new contract is executed. In this case, routine administrative renewal has been delayed by state litigation, and this act would simply preserve the District's renewal rights while the matter is adjudicated without prejudicing the outcome. It is supported by Congressman Rehberg of Montana and by the administration.

The other issue before us today is a discussion draft to standardize early payment of water contracts between water districts and the Bureau of Reclamation.

Over the past decade, five prepayment bills have been signed into law for water districts in Nevada, Utah, Idaho, Oregon and California. During the current session, one such bill, HR 818 has become law, authored by Congressman Jim Matheson, Democrat of Utah.

The draft bill before us proposes to standardize this bi-partisan practice. The treasury would receive accelerated repayment of principal while the water districts would avoid paying long-term interest, in the same manner that many mortgages allow borrowers to repay their home loans early.

There are objections to this bill that I hope can be better explained in this hearing.

The first objection, as I understand it, is that by paying off the loan early, the borrower avoids paying interest to taxpayers. I don't understand the argument. Interest is what we pay to rent money. If the loan is paid off early, the money is no longer being rented. A homeowner who pays off his mortgage early no longer owes interest on the principal since he's no longer renting it.

What the lender – in this case, the taxpayer – gets instead is the early return of his capital, which he can then lend out again or spend in some other fashion.

The second objection, as I understand it, is that early payment relieves contractors of the conditions imposed by the contract. But once the loan is repaid, the terms of the contract are concluded and no longer binding. If a homeowner pays off his mortgage early, the bank no longer can impose conditions on the homeowner such as carrying insurance.

The third objection, as I understand it, is that these water projects represent a taxpayer subsidy to water users. I would agree with that if government foots the bill for the project, such as we see with Title XVI projects, for example, this is a taxpayer subsidy and ought to be abolished.

But I don't see how this is the case here. True, government acted as the lender that fronted the money for the project. But once the money has been repaid, the government has its money back. Once a homeowner has paid off the bank loan, the bank no longer owns his house.

I realize this analogy isn't exact because the Bureau still owns the project, but if the contractors have paid for that project, the Bureau owns it only in trust, with the contractors should only pay what it costs for operations and maintenance – having already paid for the capital costs in full.

The argument that I find more compelling is the question of why government should monopolize these projects using taxpayers as lenders, when we could instead reform the structure of these projects to make them attractive to private capital.

That is an objective that needs to be pursued, but it seems to me that this is outside the limited question presented by the draft legislation before us today.