

Committee on Resources

Testimony

Subcommittee on Water and Power May 6, 1997

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of the
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Encinitas, California**

**Testimony presented to Chairman John Doolittle
and the
Subcommittee on Water and Power Resources**

INTRODUCTION AND BACKGROUND:

Thank you Mr. Chairman and Members of the Subcommittee on Water and Power Resources for this opportunity to testify before you today with regard to certain programs under the jurisdiction of the Bureau of Reclamation.

My name is David McCollom and I am the General Manager of the Olivenhain Municipal Water District in Encinitas, California. The Olivenhain District, which was formed 1959, provides water service to portions of the cities of Encinitas, Carlsbad, San Diego, Solana Beach, San Marcos, and the communities of Olivenhain, Leucadia, Rancho Santa Fe, Fairbanks Ranch and 4S Ranch. Through the Olivenhain District, I am also a member of a number of western water-related organizations, including the National Water Resource Association, the Association of California Water Agencies, and the WaterReuse Association of California. While my testimony regarding Bureau programs may refer to my experiences at the Olivenhain District, I believe they are indicative of situations facing many western water utilities.

My service area in Northern San Diego County, like many areas in the western United States, faces significant water supply problems. In Northern San Diego County, we are almost exclusively dependent on imported water to meet our residential, industrial, agricultural and horticultural water needs. As you well know, Mr. Chairman, the ultimate source of that imported water is Northern California through the State Water Project, and the Colorado River through the Colorado River Aqueduct. Necessary habitat and environmental protections, weather conditions, and government regulations all contribute to a limited and often unreliable supply of water for San Diego County. Additionally, all of the imported water pipelines into San Diego County cross directly over major earthquake fault lines. A major earthquake along the Elsinore, San Andreas or San Jacinto faults could cut off water supplies to San Diego County for months!

Clearly, water supply issues are of paramount importance to western water managers such as myself. It is also clear that the Bureau of Reclamation still plays a major role in managing limited western resources, many of which are federally regulated. However, in these times of strict budgeting, the federal government, like my own water district, is being forced to carefully evaluate its use of public funds and resources in order to develop the most cost-effective programs to achieve its goals.

ROLE OF THE BUREAU OF RECLAMATION:

I think the majority of people in the West, as well as in Washington, DC, see a changing role for the Bureau of Reclamation in western water policy. The Bureau of Reclamation made possible the settlement and growth of the West. Through the Bureau, the federal government constructed a vast network of dams, reservoirs and canals in order to insure that water and power would be available in the West when and where they were needed. Now, however, the major infrastructure that was necessary to support the growing population of the West has been constructed and the Bureau must focus its efforts on helping the West manage its finite water resources while supporting an economy upon which the entire nation is dependent.

The Olivenhain Municipal Water District envisions working together with the Bureau of Reclamation on a number of initiatives that will further the Bureau's mission to "manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public," while allowing the District to provide safe, reliable water to its service area without restricting economic growth through dramatic rate increases. Importantly, however, we believe that the Bureau should not be seen as a cash source from which water districts can expect money to flow with little or no local commitment. Instead, the Olivenhain District wants to work with the Bureau as a partner, using Bureau programs to facilitate long-term solutions to regional water problems. The two programs through which the Olivenhain District expects to work with the Bureau, the Loan Guarantee program and the Title XVI program, are excellent examples of how the Bureau can leverage its limited resources to allow communities the opportunity to develop local solutions with regional and national benefits.

LOAN GUARANTEE PROPOSAL:

Despite the restrictions on water supplies mentioned above, demand for water continues to increase, along with the price for imported water in San Diego County. Wholesale water rates for imported water have increased by \$276 per acre-foot since 1990. This increase of nearly 55% translates into about \$15 more each month on the typical household's water bill. The economic pressures to keep water rates at an affordable level, combined with a limited local government borrowing capacity, are further mandating that the Olivenhain District consider the most cost-effective methods to finance and build an emergency water storage project.

Under the authorization that would be provided by H.R.134, legislation introduced earlier this year by Congressman Duke Cunningham, the Olivenhain District plans to demonstrate the viability of a Bureau of Reclamation program that would provide a federal loan guarantee for the construction of the Olivenhain Water Storage Project. This \$61 million project will provide emergency and operational water storage and drought protection to nearly 1 million residents of Northern San Diego County.

The Olivenhain District is considering the possibility of utilizing a public-private partnership for the development of the Olivenhain Water Storage Project. Under this scenario, the District would competitively select a private partner to build and finance the project, which would then be leased back to the District. No federal taxpayer funds would be expended in the financing of the project, and the local ratepayers would benefit from the cost-efficient construction and management of the project. I understand that this hearing is not meant to focus on any one particular project, but I would be happy to describe the Olivenhain Water Storage Project and the financing alternatives under consideration in greater detail should you have any specific questions.

Congressman Cunningham's proposed loan guarantee program reflects needed changes in the federal

government's role in developing water projects in the West. The loan guarantee program allows the federal government to leverage its limited funds to allow for cost-effective private financing alternatives and encourages public-private partnerships in the building and operation of the project. This limited federal participation in the financing of water infrastructure projects allows the project developers to secure private loans at rates that are competitive with municipal tax-exempt financing while preserving the limited bonding capacity of local governments for other crucial community needs like public safety and schools.

According to the Environmental Protection Agency (EPA), the costs of complying with federal regulations mandated by the Safe Drinking Water Act and the Clean Water Act will approach \$200 BILLION in the next twenty years. Neither local governments nor the federal government have the unlimited resources necessary to cover these costs. However, through the loan guarantee program, limited federal resources can be the catalyst for infusions of private capital needed to meet these public needs.

TITLE XVI PROGRAM:

The Bureau of Reclamation's Title XVI program is an example of a cost-efficient use of limited federal resources to allow local agencies to help the Bureau meet its mission to "manage, develop, and protect water and related resources in an environmentally and economically sound manner in the interest of the American public." Through the Title XVI program, municipal and regional water agencies across the western United States have the opportunity to incorporate water reclamation and reuse projects into the management of limited water supplies, much of which are federally regulated.

In the West, water recycling is playing an increasingly critical role in the effort to meet water supply demands in a cost-effective and environmentally beneficial manner. Water recycling projects allow for the reclamation, treatment and reuse of municipal, industrial, domestic and agricultural wastewater for certain non-potable applications. Until recently, the majority of potable water supplies were used only once, treated and discharged. Projects constructed under the Title XVI program allow for the re-capturing and further treatment of normally discharged effluent, enabling it to be used for a variety of non-potable applications. The list of such applications includes industrial uses and the irrigating of golf courses, playgrounds, schoolyards and highway medians.

Every gallon of recycled water used for non-potable applications directly reduces the demand for potable water supplies. California Governor Pete Wilson has identified water recycling as the only significant new water supply in California, and water recycling will continue to play a central part in reducing the demand for water from California's environmentally sensitive San Francisco/San Joaquin Bay-Delta. Water recycling can offer the same benefits to other environmentally sensitive sources of water supply, while other in other areas, damage to depleted or naturally impaired groundwater basins can be slowed or halted due to the reduced demand for groundwater pumping.

The Title XVI program was originally authorized as part of the Reclamation Projects Authorization and Adjustment Act of 1992 (Public Law 102-575) and was amended by the Reclamation Recycling and Water Conservation Act of 1996 (Public Law 104-266). This program provides for an initial federal investment in the early stages of water recycling projects of up to 25% of the total cost of planning, design and construction. Many local government agencies would be unable to afford the up-front costs of constructing water reuse treatment and distribution facilities without the federal cost-sharing authorized by Title XVI.

In addition to the economic and environmental value from projects authorized to receive federal assistance under the Title XVI program, the finite and quantifiable nature of the program make it a model for similar

federal assistance programs. Importantly, under Title XVI, no federal funds are authorized to be spent on the operation and maintenance of any facilities developed under this program. Instead, water recycling projects in the Title XVI program are meant to be self-sustaining once constructed. Under this program, a short-term, finite federal commitment helps achieve a long-term, ongoing resolution to regional water supply problems. The creation of new water supply is also a measurable solution. As such, the federal government can see exactly what its investment yields.

The Water and Power Resources Subcommittee last year approved legislation introduced by Congressman Hansen that authorized several new projects to receive federal financial assistance under the Title XVI program. Included in that legislation were several new considerations to be used in determining eligibility for projects to receive funding under the Title XVI program. Additionally, the Bureau of Reclamation is in the process of developing standard guidelines to help them evaluate water recycling projects. All of these efforts indicate that water recycling projects will continue to play a central role in the management of western water resources.

SUMMARY:

Again, I thank the Subcommittee for providing me with this opportunity to testify on these important Bureau of Reclamation programs. Obviously, there are many varied opinions regarding the Bureau in the western United States. I have benefited from the expertise in the Bureau's regional office in Boulder City and the Southern California Area office in Temecula, and I appreciate the willingness that those offices have shown to work together with me and the Olivenhain District on a number of issues. As this Subcommittee continues to evaluate the Bureau and its programs, I hope that it considers the value of leveraging the Bureau's limited financial resources through the Title XVI program and Congressman Cunningham's loan guarantee proposal.

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