

Thomas F. Donnelly
Executive Vice President

Testimony
Before the Committee on Resources
United States House of Representatives

Hearing on Maintaining and Upgrading the Bureau of Reclamation's Facilities to Improve
Power Generation, Enhance Water Supply and Keep our Homeland Secure.

Mr. Chairman, members of the Committee, my name is Thomas F. Donnelly and I am the Executive Vice President of the National Water Resources Association. On behalf of the membership of the Association, it is my privilege to present testimony on the issue of the Bureau of Reclamation's aging infrastructure.

The National Water Resources Association (NWRA) is a nonprofit federation of associations and individuals dedicated to the conservation, enhancement, and efficient management of our Nation's most precious natural resource, WATER. The NWRA is the oldest and most active national association concerned with water resources policy and development. Its strength is a reflection of the tremendous "grassroots" participation it has generated on virtually every national issue affecting western water conservation, management, and development.

In the next decade, we believe, that one of the most critical problems facing the Bureau of Reclamation and many water districts throughout the West is maintaining the existing water and power infrastructure at peak operational efficiency. Many projects have met or exceeded their design life and are in need of modernization and/or rehabilitation. This is not to say that these projects cannot efficiently provide benefits well into the foreseeable future. However, modernization and rehabilitation of these important facilities will be required.

Currently, the U. S. Bureau of Reclamation (USBR) does not have a program which enables water users to modernize or rehabilitate their projects and payoff those costs over time under reasonable terms and conditions. Such works are considered operation and maintenance and consequently the costs must be paid back in the year that they occur. The Bureau understands the problem but has not been able to develop a program to address the problem that is acceptable to the Office of Management and Budget. This is a problem that, if not addressed immediately, will result in severe consequences sooner rather than later.

Neither the Bureau of Reclamation nor the membership of the National Water Resources Association has an accurate grasp of the scope of the problem West-wide. Therefore, we recommend that the first step in addressing this issue should be an accurate assessment of the scope of the problem. While the Bureau of Reclamation has the necessary information, we suggest that it would be advantageous to have an independent review done by the Congressional Research Service or other independent research entity.

From a funding and repayment perspective, the projects can essentially be divided into two rather distinct categories; those multi-purpose projects with adequate repayment capacity and those single purpose irrigation projects whose initial construction was heavily subsidized and whose beneficiaries do not possess the financial resources to repay the costs of modernization and rehabilitation.

PROJECTS WITH REPAYMENT CAPACITY

For the first category of projects (with repayment capacity), the solution is simply a program of funding that allows the beneficiaries to repay the modernization and rehabilitation cost over a reasonable period of time under fiscally sound terms and conditions. As stated earlier, the Bureau of Reclamation does not currently have a program which facilitates the timely modernization, rehabilitation or replacement of its existing infrastructure.

Over the past two years, we have engaged in preliminary discussions with Bureau's representatives concerning this problem. Unfortunately, the Bureau of Reclamation is tremendously restrained with what it can offer as a solution by the Administration's Office of Management and Budget and consequently, unable to think "outside the box." Recently, the Bureau has discussed with us the possibility of a program of loan guarantees as a solution. In some instances, loan guarantees could work, but loan guarantees do not offer a comprehensive solution. We believe there are a number of potential solutions, some using existing authority and others requiring new program authorization. Modernization and or rehabilitation of these projects could be accomplished through various means: project specific authorization (amendment of original authorization or new authorization) and appropriations, a congressionally authorized U. S. Bureau of Reclamation modernization and rehabilitation program, infrastructure revolving fund or use of the Reclamation Fund.

A restructuring of the Reclamation Fund, established under Section 1 of the Reclamation Act of 1902 (32 Stat.388; 43 U.S.C. §391), is an example of a potential solution using existing authority. The "Fund" currently has approximately \$4.5 – 5.0 billion in it. In reality, it was envisioned to address both new project construction and the modernization and rehabilitation of the existing infrastructure.

PROJECTS WITHOUT REPAYMENT CAPACITY

The second category of projects poses a much more difficult set of public and fiscal policy questions for Congress and the Administration.

Many of the early projects authorized and built under the Reclamation Act were single purpose irrigation projects. They were built in an effort to develop regional agricultural economies in order to facilitate a national policy goal of the orderly development of Western lands. Regional economies have developed around these projects. In many instances, project benefits have been expanded to include municipal and rural water supply, environmental mitigation and Native American water rights settlements. Despite the economic development, project beneficiaries of these single-purpose projects do not possess the repayment capacity to repay the cost of major modernization or rehabilitation.

The St. Mary Diversion project in north central Montana is a classic example of this second category of projects. The project was authorized and built under the Reclamation Act of 1902 to provide a stable source of water for irrigation of the lower Milk River Valley and settlers moved to the valley on that promise.

The USBR currently estimates that rehabilitation of the St. Mary Diversion facilities will cost between \$120-127 million. The State of Montana and the local beneficiaries would be pressed to pay even a quarter of the estimated costs. Therefore, the necessary rehabilitation costs would require a substantial federal subsidy.

On the other hand, the cost of letting the project further deteriorate would be enormous. A sudden failure would result in enormous environmental damage on the Blackfoot Indian Reservation, economically devastate local communities and businesses and undermine the Fort Belknap Water Rights Compact. It is likely that the State of Montana and the agricultural economy in the northern tier states would also be adversely impacted.

It is important not to lose site of the fact that these projects are still federally owned facilities with the underlying responsibility of the federal government to operate and maintain them at peak efficiency.

SUMMARY

The water supply and power infrastructure build over the last century by the Bureau of Reclamation remains vitally important to the West and the Nation as a whole. Reclamation projects authorized by Congress provide numerous and substantial benefits for the entire United States. Among these benefits are: (1) flood prevention and protection totaling in the tens of billions of dollars; (2) generation of substantial amounts of hydroelectric energy using water as a renewable no-cost fuel source; (3) delivery of irrigation water to hundreds of thousands of acres of farmland in semiarid and arid regions that has increased and stabilized agricultural production in those regions; (4) water-based outdoor recreation facilities that provide recreation for millions of visitors annually; (5) municipal and rural domestic water supplies for over 30 million people; (6) recharge of underground aquifers and water supplies; (7) fish and wildlife habitat including new fisheries, wildlife management areas, and hundreds of thousands of acres of habitat and marshes throughout project distribution systems and facilities; and (8) major surface water transportation.

We simply cannot let this amazing legacy crumble and deteriorate. The membership of the National Water Resources Association pledges its support and assistance to the Committee as it seeks solutions to this important problem. In addition, we commend the Chairman and the Committee for their recognition of the aging infrastructure problem and timely attention to finding a solution.