

Committee on Resources

Testimony

Subcommittee on Water and Power

Tuesday, June 24, 1997

1334 Longworth HOB, 2:00 P.M.

Opening Statement

John T. Doolittle, Chairman
Subcommittee on Water and Power

Legislative Hearing on:

H.R. 134, concerning a loan guarantee for a water project in California

H.R. 1400, concerning a water conservation project in Oregon.

Thursday, June 24, 1996 at 2:00 P.M. in
Room 1334 Longworth HOB

Last month, this Subcommittee conducted an oversight hearing to explore ways we could fund water resource infrastructure in an era of declining federal budgets. Today is our first opportunity to use some of these ideas to address the challenges presented by specific projects. Before us are two pieces of legislation in which the federal government is being asked to help advance the development of a water project. We need to look for ways to help local interests improve their water supply management while reducing the federal cost.

Tumalo Irrigation District

H.R. 1400, introduced by Congressman Bob Smith, is designed to increase the efficiency of water diversions from Tumalo Creek and the Deschutes River in Oregon. The result would be to decrease the amount of water that must be diverted to meet the needs of the Tumalo Irrigation District. This is the type of project we need to encourage to extend our water resources. Water conservation plays as important a role in meeting our future needs as water recycling and the development of new storage alternatives.

The proposed Tumalo project involves the phased installation of pipe to replace sections of the existing water conveyance and delivery system. The existing Tumalo irrigation project dates back to 1904. The new water conservation project is divided into four phases. The total federal cost share authorized in the bill is \$13.5 million, and is capped at 50 percent of the project cost.

I appreciate the efforts of Congressman Smith, his staff, the District and others in the region to reduce the costs of this project and increase its economic viability. But I have asked the Subcommittee staff to work with all of the parties to find ways to bring down the federal cost share. We need to look at all aspects of the project to determine if there are further economies in project design or construction. We also need to look at the value of the water to be conserved to see if there are opportunities to obtain contributions from:

- public or private sector onsite or offsite mitigation interests;
- the use of the water for power production; or
- water exchanges elsewhere on the system.

We need to find ways to enhance our resource management through public/private partnerships and use of private sector incentives. Some of the options that have been discussed in the past without success may still prove promising as we work with the Administration and various interest groups in the region. We are currently pursuing discussions to find alternative sources of funding that would reduce the federal expenses for the project.

The Loan Guarantee

H.R. 134, introduced by Congressman Cunningham, would authorize the use of a Federal loan guarantee to reduce the cost of financing the Olivenhain Water Storage Project in northern San Diego County, California. As introduced, the bill provides that the loan guarantee would be available under the existing authorization ceiling contained in the Small Reclamation Projects Act of 1956 and could be provided to either the District or its private developer.

The Olivenhain Water Storage Project consists of a water storage reservoir with a capacity ranging from 4,000 acre-feet to 24,000 acre-feet. The larger reservoir would not be constructed unless neighboring water districts agree to participate financially. The dam and reservoir (the portion of the proposed project designed to be covered by the loan guarantee) would cover 750 acres and be located on parcels owned by the District and the Bureau of Land Management.

The District has suggested this approach to Federal involvement as a way to reduce the cost of Federal participation in the project compared with seeking a loan through the Bureau of Reclamation. They have indicated broad support for the bill as a means of cutting costs and reducing the competition between the federal government and the private engineering and financing organizations.

There remain, however, several issues which we hope to address today. These include:

- the lack of specific conditions on the loan itself, such as a dollar ceiling or maximum repayment period;
- the fact that the loan guarantee could go to a nongovernmental developer, while loans and grants under the 1956 Act can only go to public entities such as water districts.
- whether the federal government should defer to the existing private loan guarantee market to provide the service contemplated by this legislation.

The challenge we face today is how to encourage the development and management of water resources in an economically responsible manner. If we design these programs to maximize the use of local and private sector incentives and resources, we can greatly reduce the cost and involvement of the federal government in many of these endeavors.

I do not believe that the conflicting goals of enhanced water supply and cost control present insurmountable obstacles. How we go about designing and financing these projects will be a test of the federal government's ability to transition to a smarter, more efficient, less costly mode of operation.

I look forward to hearing from the witnesses.

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