

At a Glance

H.R. 3675, Western Water Accelerated Revenue Repayment Act

As reported by the House Committee on Natural Resources on October 22, 2024

| By Fiscal Year, Millions of Dollars | 2025 | 2025-2029 | 2025-2034 |
|---|----------|-------------|---------------|
| Direct Spending (Outlays) | 0 | -107 | -160 |
| Revenues | 0 | -1 | -6 |
| Increase or Decrease (-) in the Deficit | 0 | -106 | -154 |
| Spending Subject to Appropriation (Outlays) | * | * | not estimated |

| | | | |
|--|---------------------------|---|------------|
| Increases <i>net direct spending</i> in any of the four consecutive 10-year periods beginning in 2035? | < \$2.5 billion | Statutory pay-as-you-go procedures apply? | Yes |
| Mandate Effects | | | |
| Increases <i>on-budget deficits</i> in any of the four consecutive 10-year periods beginning in 2035? | < \$5 billion | Contains intergovernmental mandate? | No |
| | | Contains private-sector mandate? | No |

* = between zero and \$500,000.

The bill would

- Allow water contractors to convert contracts with the Bureau of Reclamation from water service contracts to repayment contracts, which would require them to pay their outstanding obligations to the federal government more quickly
- Allow water contractors already operating under a repayment contract to pay their outstanding obligations to the federal government early

Estimated budgetary effects would mainly stem from

- Changes in offsetting receipts from early repayments
- Losses in revenues from an increase in the issuance of bonds that are exempt from federal taxation

Areas of significant uncertainty include

- Estimating the likelihood that water contractors would opt to repay their outstanding obligation early

Detailed estimate begins on the next page.

Bill Summary

H.R. 3675 would permanently authorize water contractors to repay their obligations to the Bureau of Reclamation (BOR) early. Early repayments were originally authorized in 2016 in Public Law 114-322 and expired in 2021. The bill would require BOR to convert water service contracts with water districts in 17 western states to repayment contracts if a contractor requests it. Water contractors that choose to convert their contracts would be required to repay their share of capital costs to the federal government earlier than would otherwise occur under current law. Existing repayment contractors also would have the option to repay their share of capital costs to the federal government early.

Estimated Federal Cost

The estimated budgetary effect of H.R. 3675 is shown in Table 1. The costs of the legislation fall within budget function 300 (natural resources and environment).

| Table 1. Estimated Budgetary Effects of H.R. 3675 | | | | | | | | | | | | |
|--|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-----------------------|-----------------------|
| | By Fiscal Year, Millions of Dollars | | | | | | | | | | 2025- 2029 | 2025- 2034 |
| | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 | | |
| | Decreases in Direct Spending | | | | | | | | | | | |
| Estimated Budget Authority | 0 | 0 | -48 | -43 | -16 | -14 | -12 | -11 | -9 | -7 | -107 | -160 |
| Estimated Outlays | 0 | 0 | -48 | -43 | -16 | -14 | -12 | -11 | -9 | -7 | -107 | -160 |
| | Decreases in Revenues | | | | | | | | | | | |
| Estimated Revenues | 0 | 0 | * | * | -1 | -1 | -1 | -1 | -1 | -1 | -1 | -6 |
| | Decrease in the Deficit From Changes in Direct Spending and Revenues | | | | | | | | | | | |
| Effect on the Deficit | 0 | 0 | -48 | -43 | -15 | -13 | -11 | -10 | -8 | -6 | -106 | -154 |

Sources: Congressional Budget Office; staff of the Joint Committee on Taxation.

* = between -\$500,000 and zero.

CBO estimates that implementing H.R. 3675 would increase spending subject to appropriation by less than \$500,000 in any year and over the 2025-2029 period.

Basis of Estimate

For this estimate, CBO assumes that H.R. 3675 will be enacted before the end of calendar year 2024.

Background

BOR delivers 10 trillion gallons of water annually under water service and repayment contracts in 17 western states. In addition to paying for 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 \$130 million annually for their share of construction costs (including interest) to the federal government. Collectively, those water contractors have outstanding obligations to the government totaling \$4.3 billion (including principal and interest) over the next 40 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 is usually not more than 40 years and water contractors typically cannot pay their share of the construction costs on an accelerated schedule.¹

Direct Spending

H.R. 3675 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. (Any difference between the estimated costs and the final costs of the project would be reconciled after the project is completed.) 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 also 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 a rate equal to 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 percentage of water contractors that repaid early over the 2016-2021 period when they were last allowed to do so, CBO expects that over the next 10 years about 10 percent of the current contractors would choose to repay their share of capital costs early. CBO expects it would take two years to reestablish the program and that early repayments would be slightly higher in the first few years. CBO estimates that receipts from those accelerated payments would total \$223 million over the 2025-2034 period. Over that same period, CBO projects that the annual repayments (including applicable interest payments) that would occur under current law would total \$63 million. Thus, CBO estimates that offsetting receipts would increase by \$160 million over the 2025-2034 period. However, the reduction in offsetting receipts after 2034 would be greater than the net increase in

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 also are 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.

receipts that would occur over the 2025-2034 period. CBO estimates that the net loss in offsetting receipts stemming from early repayments initiated prior to 2034 would total about \$280 million over the 30-year period after 2034.

Because the program would be permanent under H.R. 3675, water contractors also could opt to repay early in years after 2034; however, CBO has not estimated how many contractors would choose to do so after 2034.

Revenues

The staff of the Joint Committee on Taxation expects 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 estimates that issuing those bonds would lead to a revenue loss of \$6 million over the 2025-2034 period (see Table 1).

Spending Subject to Appropriation

Using information from BOR, CBO estimates that any additional resources necessary for the agency to convert contracts and prepare estimates of final capital costs would total less than \$500,000 over the 2025-2029 period. Any related spending would be subject to the availability of appropriated funds.

Uncertainty

This estimate is subject to uncertainty related to the number of water contractors that would opt to pay early and the amount they owe to the federal government for their share of capital costs. As a result, enacting the bill could result in higher or lower costs than CBO estimates.

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 1.

Increase in Long-Term Net Direct Spending and Deficits

CBO estimates that enacting H.R. 3675 would increase net direct spending by less than \$2.5 billion in any of the four consecutive 10-year periods beginning in 2035.

CBO estimates that enacting H.R. 3675 would increase on-budget deficits by less than \$5 billion in any of the four consecutive 10-year periods beginning in 2035.

Mandates

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

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