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## Bureau of Reclamation Project Authorization and Financing

The Bureau of Reclamation (Reclamation), an agency within the Department of the Interior (DOI), is responsible for the construction and maintenance of the majority of the large dams and water diversion structures in the 17 conterminous U.S. states west of the Mississippi River. Along with the U.S. Army Corps of Engineers (Corps), it is one of the two principal federal agencies that own and operate water resources facilities. Reclamation was created by Congress in the Reclamation Act of 1902, which authorized the Secretary of the Interior to construct irrigation works in western states. Today, Reclamation manages hundreds of dams and diversion projects in the West. Reclamation facilities also provide flood control, recreation, and fish and wildlife benefits.

Reclamation is an agency in transition. It has constructed few new projects in recent years and has been increasingly involved in other mission areas. Whether to facilitate new Reclamation project development—and, if so, how—has been of interest to many in recent congresses. These issues take on added significance due to Reclamation’s nexus with state and local water project development in the West.

This report summarizes the process for developing and funding new Reclamation projects, including recent proposals to alter the agency’s process and role.

### The Reclamation Fund and Reclamation Project Financing

The Reclamation Fund, a special fund in the U.S. Treasury, is the primary means of funding Reclamation projects. It was established in the Reclamation Act of 1902 and receives receipts from several sources (see **Table 1**). It is available for appropriation by Congress, typically in annual Energy and Water appropriations acts. The fund was originally conceived as a revolving fund, with receipts from existing project repayments expected to fund new projects, without appropriation. Since 1914, Congress has required that the fund’s balances be accessed only with specific appropriations. Over time, Congress has directed additional receipts toward the Reclamation Fund, including 40% of onshore royalties from mineral and natural resource leasing on federal public lands (authorized in 1920) and Reclamation project power revenues (authorized in 1938).

The Reclamation Fund’s balance has increased in recent years, largely due to a spike in mineral and natural resource royalties in several western states. For almost every year since FY1994, receipts going into the fund have exceeded appropriations made from it, and in most years, receipts have more than doubled appropriations. Some have cited this incongruity as an argument for increased funding for new Reclamation projects. For more information, see CRS In Focus IF10042, *The Reclamation Fund*.

**Table 1. Major Sources of Reclamation Fund Revenue**

Source	Description	Year Auth.
Public Land Sales	95% of proceeds from public land sales in western states	1902
Reclamation Project Repayment	100% of receipts	1902
Reclamation Project Water Contracts/Sales	100% of proceeds	1902
Reclamation Project Power Revenues	100% of proceeds	1938
Natural Resource/Mineral Royalties	40% of bonuses, royalties, and rentals from onshore public lands	1920

**Source:** Congressional Research Service.

Not all Reclamation projects draw financing from the Reclamation Fund. Several projects (e.g., the Colorado River Storage Project) have their revenues deposited into separate funds in the Treasury that are set aside to finance their operations in accordance with enacted legislation. Additionally, some Reclamation programs and projects have been funded from the General Fund of the Treasury.

### Project Development and Cost Shares

Reclamation’s role in project development has largely been limited to congressionally authorized, geographically specific water storage projects. These projects typically are authorized for study by Congress and then authorized for construction after studies are complete. For most projects, the federal government initially funds 100% of the costs of study and construction and is repaid by beneficiaries (e.g., irrigation contractors, municipal governments) over a 40-50 year term for their estimated share of the project’s costs. Some irrigation beneficiaries are not charged interest on their repayment, and some have their repayment obligations reduced based on their ability to pay. Some project costs are assigned as nonreimbursable because they are considered “federal” in nature (e.g., fish and wildlife enhancements). As result, the amount repaid to the federal government may be significantly less than the initial cost of construction, and the federal subsidy for these projects varies widely.

Few new Reclamation projects have been built in recent years, and some stakeholders have called for alterations to the agency’s role in facilitating water project development. They argue that Reclamation should build more water storage projects to address water shortages in the West.

Others contend that Reclamation should focus on maintaining aging projects, facilitating development of alternative water supplies, and/or transferring some of its assets to local sponsors.

## New Mission Areas

Several areas have accounted for increasing portions of Reclamation's funding and activities in recent years. These include Reclamation's WaterSMART program, rural water projects, and Indian water rights settlements. Reconciling the priority of these programs with traditional Reclamation projects is a key challenge for Congress. These programs are discussed briefly below; for more information, see CRS Report RL30478, *Federally Supported Water Supply and Wastewater Treatment Programs* and CRS Report R44148, *Indian Water Rights Settlements*.

## WaterSMART Program

Reclamation combines funding for multiple programs promoting water conservation into the WaterSMART (Sustain and Manage American Resources for Tomorrow) program. The program is part of DOI's focus on water conservation, reuse, and planning, and it is notable for its departure from Reclamation's traditional project-based focus. The program includes funding to support water reuse and recycling projects (the Title XVI program) and grants to increase water and energy efficiency, among other things. WaterSMART projects accounted for \$59 million (6%) of Reclamation's FY2018 budget request.

## Rural Water and Indian Water Rights Settlements

The only new Reclamation construction projects to be authorized and funded in recent years have been those intended to provide water supplies to selected rural areas (rural water projects) and Indian tribes (Indian water rights settlements). Reclamation's FY2018 budget requested \$46 million for six authorized rural water projects and \$99 million to implement four Indian water rights settlements.

## Congressional Interest in Reclamation Projects

The relative lack of new Reclamation projects in recent years is generally attributed to a combination of factors, including new environmental protection requirements, prior development or designations for potential water storage projects, limited funds for construction, and a congressional moratorium on geographically specific authorizations and appropriations (i.e., earmarks). Some argue that new models for studying, financing, and constructing Reclamation projects will facilitate new project development. Some also have cited Reclamation (along with the Corps) as an example of an agency that can benefit from congressional input in the form of earmarks. Selected proposals in recent Congresses are discussed below.

## Recent Legislation

The most recent authorizing legislation for Reclamation was enacted in December 2016 under Subtitle J of the Water Infrastructure Improvements for the Nation Act (WIIN Act; P.L. 114-322). The WIIN Act made several changes to Reclamation authorities, including changes to operational authorities for the Central Valley Project in California and a new authority (Section 4007) for federal

support of new or expanded water storage projects. In contrast to the traditional approach of 100% of costs funded up front by the federal government (to be repaid by beneficiaries at varying levels), the WIIN Act authorized federal support for a maximum of 50% of total costs (to be repaid by beneficiaries) for certain approved federal water storage projects, as well as a maximum of 25% federal support for approved nonfederal surface and groundwater storage projects. For more information on these changes, see CRS In Focus IF10626, *Reclamation Water Storage Projects: Section 4007 of the Water Infrastructure Improvements for the Nation Act*.

In the 115<sup>th</sup> Congress, H.R. 4419, H.R. 875, and Title VI of H.R. 23 all propose to institute a new process to facilitate the study and authorization of Reclamation projects. They would do so through an approach that is similar to a reporting process that was authorized for the Corps in the Water Resources Reform and Development Act of 2014 (P.L. 113-121). Each bill would require annual reporting by Reclamation to Congress on study proposals by nonfederal sponsors. Other provisions in these bills would generally aim to limit the time and cost of Reclamation studies (and are also similar to those enacted for the Corps). Some argue that the agencies are similar and warrant similar approaches to project development. Others believe that key differences between the two agencies warrant different approaches.

H.R. 4419 also would authorize four new Reclamation construction projects (see **Table 2**). Similar to recent Corps legislation, the bill would do this by referencing Administration studies of the individual projects. In contrast to the Corps, those documents did not include a recommendation by the Administration for construction. Also similar to recent Corps legislation, the bill proposes to offset new project authorizations by requiring Reclamation to recommend an equal amount of previously authorized (but not appropriated) funding for de-authorization based on various criteria. In contrast to the Corps' de-authorization process, which is ongoing in perpetuity, the Reclamation process would be one-time only.

**Table 2. H.R. 4419: Proposed Reclamation Projects**

Project (State)	Report Date	Federal Cost (\$-millions)
Yakima River Basin Water Enhancement Project-Phase III*	3/2/2012	\$237.1
Equus Beds Division of the Wichita Project*	1/19/2010	\$120.0
Musselshell-Judith Rural Water System	7/31/2015	\$87.1
Shasta Lake Water Resources Investigation*	7/29/2015	\$36.8

**Source:** Section 8 of H.R. 4419.

**Notes:** \* indicates additions to existing Reclamation projects.

**Charles V. Stern**, Acting Section Research Manager

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