

May 2, 2008

The Honorable Pete V. Domenici
Ranking Member
Committee on Energy and Natural Resources
United States Senate
Washington, D.C. 20510

Dear Chairman Domenici:

The Bureau of Reclamation (Reclamation) built and manages the largest part of the critical water supply infrastructure that is the foundation of the economic vitality of the 17 Western States. Much of this federally-owned infrastructure is now 50-100 years old, approaching the end of its design life, and needs to be rebuilt and rehabilitated for the next century. The Congressional Research Service has calculated the original development cost of this infrastructure to be over \$20 billion, and Reclamation estimates the current replacement value of its water supply and delivery infrastructure at well over \$100 billion.

We know that you recognize the problem of aging public infrastructure across the Nation. We also know that you understand how critically important Federal water supply systems are to Western communities, farms, and the environment. These facilities are an essential component of the nation's food-production system and their operation helps ensure our ability to provide reliable and secure food for its own citizens and the rest of the world. And, we know you recognize that the problem with fixing aging public infrastructure is financial. There are not enough Federal dollars to go around for these burgeoning needs. Yet, in the case of Reclamation water facilities, most of the rebuilding of this federal water infrastructure is paid for by the end users who contract with Reclamation for their water supplies. Reclamation estimates that \$3 billion will be needed from project users in the near-term to provide for essential repairs and rehabilitation of Reclamation facilities.

This is where the problem begins: under its legal authority, Reclamation must treat expensive, major rehabilitation and replacement projects as operation and maintenance costs (O&M) that must be paid for by the water users both in advance, and in the year in which the costs are incurred. For

some of these projects, it is not uncommon for annual O&M bills for these rehab projects to be thousands of times larger when compared to previous years, with little time for water users to prepare. With the Federal government holding title to these facilities, water users can not easily obtain financing to meet their O&M obligations, nor can they simply pass along huge increases in costs to their water customers in such a short period of time.

As a result, in most of these cases, the unthinkable happens: these vital rehabilitation and replacement projects are delayed or dropped, leaving the facility in badly decomposing or unsafe condition for future generations to deal with, and setting up the perfect storm of facility failure and resulting damages to property and person.

In the past, Reclamation offered its water users direct loans to cover their share of these major expenses, allowing them to finance over many years their contractual share of these costs over time. However, these direct loans have been discontinued, as mounting pressures on the Federal budget have redirected funds that were traditionally dedicated to these loan programs. Currently, Reclamation does not have any active program that provides either loans or a budget line for the water user share of these rapidly increasing costs, even under hardship conditions.

With leadership from your Committee, 109th Congress sought to address the situation by creating an innovative loan guarantee program to help local agencies meet their financial obligations for the repair and rehabilitation of Federal water supply facilities. Title II of the Rural Water Supply Act of 2006 (PL 109-451) authorized a loan guarantee program within Reclamation that would leverage a small amount of appropriated dollars into a large amount of private lender financing available to qualified Reclamation-contractor water districts with good credit. Such loans were set up to finance up to 90% of the cost of a rehabilitation project over a period not to exceed 40-years. The borrower would pay the interest expense and the small federal appropriation equal to the actual risk of default (calculated by the Congressional Budget Office at 1% - 3% of the total loan guaranteed) would be held in reserve.

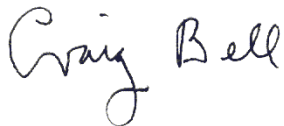
In other words, the Congress has given the authority to Reclamation to co-sign a loan to help their water contractors meet their contract-required, mandatory share of rebuilding and replacement costs of federally-owned facilities.

Given this scenario, it is incredible that Reclamation loan guarantees, a long-awaited critical financing tool for water users across the West, are now being held up because of incorrect interpretations of clear Congressional direction by the Office of Management and Budget (OMB). An April 3, 2008 memo prepared by OMB (attached) concluded that the Bureau can carry out the loan program only if it is willing to siphon large amounts of funding away from other programs and needs within its budget. This is not what Congress intended. We believe that OMB's conclusions are wrong and that they are driven by a desire to prevent implementation of the program. We have prepared a White Paper (also attached) to rebut OMB's flawed arguments and representations.

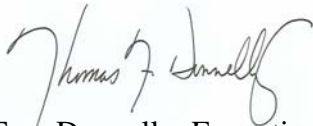
We need your help, through Congressional Oversight and possibly new legislative language, to tell the Office of Management and Budget that they are wrong, and to allow the Bureau of Reclamation to proceed with implementation of the loan guarantee program as Congress intended it to function.

Thank you for your consideration of our perspective on this important matter. We respectfully request that you consider this position, and support our efforts to allow Bureau of Reclamation water contractors across the West access to federally guaranteed loans to help finance the rebuilding of our Federal water projects so critical to the future of the American West. As always, we will make ourselves available to answer any questions you may have on this issue.

Sincerely,



Craig Bell, Executive Director
Western States Water Council



Tom Donnelly, Executive Vice-President
National Water Resources Association



Dan Keppen, Executive Director
Family Farm Alliance



Tim Quinn, Executive Director
Association of California Water Agencies



Robert Stackhouse, General Manager
Central Valley Project Water Association



Anita Winkler, Executive Director
Oregon Water Resources Congress