D-5200

DEC 17 1996

MEMORANDUM

To: Commissioner
Attention: W-1000
Manager, Washington Administration and Performance Review Programs
Attention: W-1100
Director, Policy and External Affairs
Attention: W-1500
Chief, Program Analysis - Washington Liaison
Attention: W-5000
Director, Operations
Attention: W-6000
Chief, Program, Budget, and Liaison
Attention: W-6300
Special Assistant to the Commissioner
Attention: LC-9000
Director, Reclamation Service Center
Attention: D-1000
Director, Human Resources
Attention: D-4000
Director, Management Services
Attention: D-7000
Director, Technical Service Center
Attention: D-8000
Regional Directors, PN, MP, LC, UC, GP
Attention: PN-1000, MP-100, LC-1000, UC-100, GP-1000

From: Eluid L. Martinez
Commissioner

R. Steven Richardson

Subject: Policy for Funding Future Capital Improvements on Reclamation Projects

In the Audit by the Office of the Inspector General entitled "Assessment of User Charges after Initial Project Payout" the recommendation was made to fund future capital improvements through the use of user charges imposed after project payout. The Inspector General defined capital improvements as the replacement, rehabilitation, or renovation of facilities. The user charges would be a charge similar to that provided for in OMB Circular A-25, where the Federal Government would collect a rental-type fee for the use of

the facilities and the proceeds would offset a need for future appropriations. The user charge would fund activities not currently included in the replacement (R) component of the O&M&R expenditure.

Specifically, the two recommendations in the report stated:

1. Initiate a policy review which addresses the funding requirements for capital improvements and the options for and impediments to assessing user charges to finance these requirements.

2. Based on the results of the review, develop a user charge policy for finding capital improvements and seek legislative authority, if necessary, to implement the policy.

In meeting the requirements for Recommendation 1 in the Report, an evaluation was made of our existing programs and authorities to provide capital improvements on projects after completion of initial construction. This review concluded that existing laws do not provide sufficient authority for Reclamation to utilize user fees as a means to fund capital improvements of the magnitude envisioned by the Inspector General. Consequently, additional authority from Congress would be required. As a matter of policy, Reclamation does not plan to seek this authority for two reasons.

1. Currently, Reclamation does not have authority to collect non-appropriated funds, place them in a revolving fund, and then allocate them to capital improvements without obtaining appropriations through the Congressional budget process. That is, Reclamation does not have authority to operate a programmatic revolving fund for the benefit of future capital improvements independent of the Congressional appropriations process. Reclamation does not anticipate that Congress is going to provide this authority given the budget reform acts which have been passed in recent years. Consequently, we do not believe it would be fruitful to pursue this legislative effort.

2. In today's shifting perspective of the Federal Government and with the bipartisan efforts to reduce the deficit and balance the budget, implementing the Inspector General's recommendation could put further pressure on increases in future Federal expenditures. The revenues derived from the imposition of user fees could be deposited to the General Fund and, therefore, potentially could be used to balance the Federal budget or for other purposes instead of the stated purpose. This has occurred a number of times over the last several years affecting other Federal programs. Reclamation would then be faced with seeking new appropriations to fulfill the capital investment funding requirements incurred after a project is paid out.

In Reclamation's current effort to cooperate in reducing the budget deficit, we are exploring ways to shift the financial responsibility for projects from the Federal Government to the project beneficiaries. That is, we believe the entities should be responsible for future capital improvements through the use of their own resources. This may require the use of district

reserve funds or private financing through loans, tax levies, or bond issues. The Federal Government would still be obligated to provide for costs allocated to non-reimbursable purposes when a facility is improved or replaced. Therefore, as a statement of policy Reclamation will not seek Congressional appropriations to replace, rehabilitate, or renovate facilities related to the reimbursable functions of a project. Private financing is to be encouraged and should be used as an incentive in the title transfer program. This policy does not affect activities undertaken pursuant to the Safety of Dams Program.

In the event private financing cannot be obtained, Reclamation will need to evaluate its options, which may include the revision of operating standards, or, in a worst case scenario, discontinuing operation of the facilities.

This approach is in keeping with the theme of the National Performance Review regarding the mission of the Bureau of Reclamation. That is, Reclamation's traditional construction mission has essentially ended, and the focus should now be on water management, while transferring other functions to non-Federal authorities. Concurrence with Recommendation 2 of the Inspector General's report would not be consistent with this objective. In essence, requiring the non-Federal entities to be responsible for future capital investments accomplishes the same general objective as that of the Inspector General, but with a greater chance for success.

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