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REPORT
110–117

RENEGOTIATION OF PAYMENT SCHEDULE

JUNE 28, 2007.—Ordered to be printed

Mr. BINGAMAN, from the Committee on Energy and Natural Resources, submitted the following

R E P O R T

[To accompany H.R. 235]

The Committee on Energy and Natural Resources, to which was referred the Act (H.R. 235) to allow for the renegotiation of the payment schedule of contracts between the Secretary of the Interior and the Redwood Valley County Water District, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the Act do pass.

PURPOSE OF THE MEASURE

The purpose of H.R. 235 is to allow for the renegotiation of the payment schedule of contracts between the Secretary of the Interior and the Redwood Valley County Water District, and for other purposes.

BACKGROUND AND NEED

In 1964, the Redwood Valley County Water District (District) in California was formed to provide a reliable water supply to 1,100 residents and farmers of Redwood Valley. A small water project was built at a cost of $8.5 million, $7.3 million of which came from two Small Reclamation Projects Act (SRPA) loans (P.L. 84–984). The District's rate schedules for the water system were subsequently inadequate to generate revenues to repay the loans. At the core of the problem was the District's inability to secure a reliable water supply. In October 1988, Congress passed P.L. 100–516 suspending the District's loan repayment obligation until a renegotiated payment schedule is in place. It also eliminated any accrued penalty interest. No such payment schedule has been negotiated. The District is now actively seeking to secure private financing to

acquire a stable water supply and expand its water system to new customers. To do that, the District needs to be able to commit future revenues to pay for the projects without objection from Reclamation.

LEGISLATIVE HISTORY

H.R. 235 was introduced on January 4, 2007 by Representative Mike Thompson and referred to the House Committee on Natural Resources. Under suspension of the rules, H.R. 235 passed the House of Representatives on February 6, 2007. The bill was received in the Senate and referred to the Committee on Energy and Natural Resources. An identical measure, S. 1112, was introduced by Senator Feinstein for herself and Senator Boxer on April 16, 2007, and referred to the Committee on Energy and Natural Resources. The Subcommittee on Water and Power held a hearing on S. 1116 and H.R. 235 on April 25, 2007. At its business meeting on May 23, 2007, the Committee ordered H.R. 235 to be favorably reported.

COMMITTEE RECOMMENDATION

The Committee on Energy and Natural Resources, in open business session on May 23, 2007, by voice vote of a quorum present, recommends that the Senate pass H.R. 235.

SECTION-BY-SECTION ANALYSIS

Section 1 amends Public Law 100–516 to authorize the Redwood Valley County Water District to finance through non-Federal entities, the procurement of water rights and water system improvements to address the District's water needs, and, as set forth, to reschedule payments due from the District to the United States to satisfy existing outstanding financial obligations.

COST AND BUDGETARY CONSIDERATIONS

The following estimate of costs of this measure has been provided by the Congressional Budget Office:

JUNE 6, 2007.

Hon. JEFF BINGAMAN,
Chairman, Committee on Energy and Natural Resources,
U.S. Senate, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 235, an act to allow for the renegotiation of the payment schedule of contracts between the Secretary of the Interior and the Redwood Valley County Water District, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Tyler Kruzich.

Sincerely,

PETER R. ORSZAG.

H.R. 235—An act to allow for the renegotiation of the payment schedule of contracts between the Secretary of the Interior and the Redwood Valley County Water District, and for other purposes

H.R. 235 would require the Secretary of the Interior to reschedule payments owed by the Redwood Valley County Water District to the government on loans made to the district by the Bureau of Reclamation under the Small Reclamation Projects Act. Based on information from the bureau, CBO estimates that enacting H.R. 235 would have no significant impact on direct spending or revenues over the next 10 years.

The Bureau of Reclamation executed two loans over 25 years ago to help the district construct a dual distribution water supply system. The loans totaled $7.3 million. After making the first payment in 1983 on a 35–year repayment plan on the two loans, the district determined that water sales from the project would not be sufficient to repay the loans. After years of inability to repay the loans, the Mni Wiconi Project Act of 1988 was enacted. That act required the Secretary to renegotiate the repayments schedules of the district's loans, and suspended repayments until such renegotiation was complete.

To date, the water district has made no additional repayments, and under current law the Bureau of Reclamation does not expect to collect any significant repayments on those loans over the next 10 years. Further, the agency holds no collateral for those loans and does not plan to foreclose on them. Hence, CBO estimates that enacting H.R. 235 would not affect direct spending because we expect the agency is unlikely to receive any significant repayments either under current law or under the bill over the next 10 years.

H.R. 235 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act. The bill might benefit the Redwood Valley County Water District by requiring the Secretary of the Interior to revise the district's repayment contracts for construction and water projects.

The CBO staff contact for this estimate is Tyler Kruzich. This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis.

REGULATORY IMPACT EVALUATION

In compliance with paragraph 11(b) of rule XXVI of the Standing Rules of the Senate, the Committee makes the following evaluation of the regulatory impact which would be incurred in carrying out H.R. 235. The bill is not a regulatory measure in the sense of imposing Government-established standards or significant economic responsibilities on private individuals and businesses.

No personal information would be collected in administering the program. Therefore, there would be no impact on personal privacy.

Little, if any, additional paperwork would result from the enactment of H.R. 235, as ordered reported.

EXECUTIVE COMMUNICATIONS

The testimony provided by the Bureau of Reclamation at the Subcommittee hearing on April 25, 2007 on H.R. 235 follows:

STATEMENT OF ROBERT JOHNSON, COMMISSIONER, BUREAU OF RECLAMATION, U.S. DEPARTMENT OF THE INTERIOR

Mr. Chairman and members of the Subcommittee, I am Robert W. Johnson, Commissioner of the Bureau of Reclamation. For the reasons discussed below, the Department does not support H.R. 235.

Reclamation has worked with the Redwood Valley County Water District (District) for over 30 years to fund and build a water distribution system to provide over 1,100 residents and farmers of Redwood Valley, California with a reliable municipal and industrial water supply. Although we recognize the need to develop a workable strategy for ensuring the District is able to repay its loan obligation to Reclamation, because H.R. 235 could provide the District legislative loan forgiveness, Reclamation cannot support the bill.

Over 25 years ago, Reclamation executed two 35–year repayment contracts with the District (contract numbers 14–06–200–8423A and 14–06–200–8423A Amendatory) for two Small Reclamation Projects Act (P.L. 94–984) loans totaling $7.3 million. Combining those loans with funding from other sources, the District built an $8.5 million water system project that is still in use today. By 1982, the District's water rate for its customers were above the state average, yet still inadequate to generate revenues for facilities operation and maintenance and repayment of a projected debt of $200,000 per year. That same year the District informed Reclamation of possible repayment problems.

Beginning in the late 1980s, the District, congressional representatives, and Reclamation engaged in numerous discussions over the District's inability to make the scheduled loan payments. Subsequent legislation resulted in a postponement of loan interest, but did not produce any positive outcome on the repayment issue.

Compounding its fiscal problems, the District does not have a firm and reliable water supply and is currently under a court-ordered moratorium preventing new service connections. This moratorium has greatly hampered the District's ability to repay its two loans.

Reclamation cannot support H.R. 235 because the legislation's repayment provision does not establish a date certain for either repayment to begin or to be concluded. The proposed legislation does not provide any assurance that the United States will ever receive payment on the two loans, and essentially could provide loan forgiveness. The renegotiated payment arrangement could further postpone repayment of money owed Reclamation.

Reclamation recognizes that a firm and reliable water supply is likely necessary to resolve the District's current financial dilemma, which prevents the District from being able to complete repayment of these two loans. Also, any deferment legislation should include language to ensure that the District first uses proceeds from the sales of such

a supply to repay the new obligation used to secure the water supply and second to satisfy the District's repayment obligations to Reclamation. Furthermore, such legislation should include a date certain for repayment of Reclamation loans to begin or to be completed. We support efforts by the District to recover financially and find a solution that will enable it to pay its debts. Any such solution must ensure that the loans made by Reclamation will be wholly repaid.

While the Department cannot support H.R. 235, we look forward to working with the District to address the repayment issue. This concludes my prepared remarks. I am pleased to answer any questions.

CHANGES IN EXISTING LAW

In compliance with paragraph 12 of rule XXVI of the Standing Rules of the Senate, changes in existing law made by the Act H.R. 235, as ordered reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

Public Law 100–516, Section 15 (102 Stat. 2573)

SEC. 15. CONTRACTS WITH THE REDWOOD VALLEY COUNTY WATER DISTRICT, CALIFORNIA.

(a) RENEGOTIATION OF CONTRACTS.—(1) Notwithstanding any other provision of law, the Secretary of the Interior shall renegotiate the schedules of payment for the loans to the Redwood Valley County Water District which are numbered 14–06–200–8423A and 14–06–200–8423A Amendatory.

(2) [Such renegotiated schedules of payment may not take effect until October 1, 1989.] *If, as of January 1, 2006, the Secretary of the Interior and the Redwood Valley County Water District have not renegotiated the schedule of payment, the District may enter into such additional non-Federal obligations as are necessary to finance procurement of dedicated water rights and improvements necessary to store and convey those rights to provide for the District's water needs. The Secretary shall reschedule the payments due under loans numbered 14–06–200–8423A and 14–06–200–8423A Amendatory and said payments shall commence when such additional obligations have been financially satisfied by the District. The date of the initial payment owed by the District to the United States shall be regarded as the start of the District's repayment period and the time upon which any interest shall first be computed and assessed under section 5 of the Small Reclamation Projects Act of 1956 (43 U.S.C. 422a et seq.).*

(b) The obligation to repay amounts loaned to the Redwood Valley County Water District, California, pursuant to the original negotiated schedule of payment of a loan specified in subsection (a) is suspended until the renegotiated schedule of payment for that loan takes effect. Any obligation to repay amounts under any such loan which is due, but not paid as of the date of enactment of this Act, is suspended. The renegotiated schedules of payment, referred

to in subsection (a) shall take into account any obligation suspended by this subsection.

[(c) No interest may be charged on any payment under either of the loans specified in subsection (a) which is due but not paid before the renegotiated schedule of payment for such loan takes effect.]

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