

Testimony of James W. Broderick
Executive Director, Southeastern Colorado Water Conservancy District

Hearing on H.R. 317 (Salazar): To authorize the construction of the Arkansas Valley Conduit in the State of Colorado, and for other purposes (Arkansas Valley Conduit Act)

Before the Subcommittee on Water and Power
U.S. House Committee on Natural Resources
March 13, 2008

[Madame Chair] My name is Jim Broderick, Executive Director of the Southeastern Colorado Water Conservancy District, and I am testifying today in support of the goals embodied in H.R. 317 (Salazar): To authorize the construction of the Arkansas Valley Conduit in the State of Colorado, and for other purposes (Arkansas Valley Conduit Act). I would like to thank the Subcommittee for the opportunity to testify today. I also thank Representatives Musgrave and Salazar for their leadership in introducing this legislation and the Subcommittee for holding this hearing today.

The Southeastern Colorado Water Conservancy District (Southeastern) is the local sponsor of the Fryingpan-Arkansas Project (the Fry-Ark Project), a multipurpose project constructed by the Bureau of Reclamation (Reclamation) that stores and delivers water for municipal and agricultural use within the nine-county service area of the District, Arkansas River basin, Colorado. Southeastern, through its Water Activity Enterprise, has agreed to manage and organize the efforts necessary to make this project a reality.

The Fryingpan Arkansas Project Act requires that municipal water supply works either be constructed by communities themselves or, if infeasible, by the Secretary, with

repayment of actual costs and interest within 50 years. During development of the original Project, Reclamation found the Conduit to be economically feasible, but the beneficiaries lacked the bonding capability to construct the works themselves. The beneficiaries of the Conduit found that it also was financially infeasible to repay Reclamation within 50 years if Reclamation were to construct the Conduit. In testimony before the Senate Energy and Natural Resources Committee in 2003 and 2006, the Bureau of Reclamation's witnesses stated that the Administration cannot support legislation with a Federal cost share that is inconsistent with Fry-Ark legislation, general Reclamation law and current policy.

As Southeastern President Bill Long has testified there is a well-documented need for the Arkansas Valley Conduit. Integral to the question of whether the Arkansas Valley Conduit is needed, is the question of how to fund the construction of the Arkansas Valley Conduit. It is this question that has dominated Southeastern's and its partners' efforts over the past five years. Recently, we have been discussing with the Bureau of Reclamation, our Congressional delegation and other governmental partners an approach that would apply current and future miscellaneous revenues generated by Fry-Ark to repay the debt on certain Fry-Ark components in a different manner than is currently provided for in the repayment contract between Southeastern and the United States. Among those components is construction of the Arkansas Valley Conduit, and different than the repayment proposal in H.R. 317.

Unique among Federal Reclamation projects, the Fryingpan-Arkansas Project (Fry-Ark) is beginning to generate significant miscellaneous revenues from storage of non-project water in Fry-Ark facilities through "excess capacity" or "if-and-when"

contracts. We propose using this miscellaneous project revenue, generated by the Fry-Ark itself, to count towards the 100 percent payment of actual costs requirement.

The estimated cost of the Arkansas Valley Conduit is \$300 million and will take until 2021 to design, permit, acquire rights-of-way, and construct. The participants have secured a guaranteed loan for \$60.6 million from the State of Colorado to help in their repayment obligation.

The proposed repayment schedule is based on 65% Federal share and 35% local share. The local reimbursable portion would be \$105 million and would be paid back with interest. The Federal non-reimbursable portion of the Arkansas Valley Conduit would be \$195 million, and would be paid without interest.

It is estimated that construction of the Arkansas Valley Conduit would be complete in 2020 and would begin delivering water in 2021, at which time payment on the reimbursable portion of the Fry-Ark costs would begin with 3.046% interest.

The Arkansas Valley Conduit participants would make a \$40 million payment toward the \$105 million reimbursable construction costs, holding the remaining loan proceeds for costs which occur for environmental compliance, engineering, acquiring right-of-way, etc. Contract Revenue would be used to make payments on the remaining reimbursable balance of the Arkansas Valley Conduit.

Once the reimbursable portion repayment is complete, Contract Revenue would be used to pay for the non-reimbursable \$195 million (without interest.) This non-reimbursable portion repayment would be complete in 2072, within the 50 year requirement of the Fry-Ark authorizing legislation.

To implement this approach, the Fry-Ark authorizing act will need to be amended to limit Arkansas Valley Conduit beneficiaries' repayment obligation to not more than 35 percent. The combined Fry-Ark Contract Revenue and Arkansas Valley Conduit beneficiary payments will pay 100 percent of the Arkansas Valley Conduit construction costs, with interest being applied only on the 35 percent reimbursable Arkansas Valley Conduit beneficiary obligation.

We look forward to working with our Congressional delegation and this Subcommittee to bring this much-needed project to fulfillment.