



# washington dc update

## House Water and Power Hearing on the Bureau of Reclamation's Management of Stimulus Funding

July 16, 2010

Yesterday, Congresswoman Grace Napolitano and her Water and Power Subcommittee held hearings concerning how the Bureau of Reclamation is managing its ARRA funding. Before going into the hearing, WESTCAS members should be aware of a website created by the Department of Interior to track state by state allocations of ARRA funding. It is: [www.doi.gov/recovery](http://www.doi.gov/recovery). When you open this site, it is easy to navigate to each state for a summary of how funds are being spent. We highly recommend that all WESTCAS members spend some time looking at this site.

In her opening remarks, Chairwoman Napolitano noted that in addition to how ARRA money is being spent, the greater issue is how this almost \$1 billion in funding outside the normal appropriations process will impact the Bureau's longer term mission of creating new water supplies. She requested a GAO Report to examine the legacy costs associated with federally funded Bureau projects including dams, Title 16 projects, and other priorities.

We have attached the opening statement of Chairwoman Napolitano and also the written testimony of Bureau of Reclamation Commissioner Mike Connor for your review. Here are some highlights:

- \$950,000,000 total ARRA dollars committed to the Bureau of Reclamation.
- As of June 30, 2010 more than \$774,414,000 or 82% has been committed to projects.
- Almost all of the projects will be "well along" by the end of FY2010 and most will be completed by the end of FY2011.
- Of the total of ARRA funding, \$135.79 million has been committed to Title 16 projects.
- This money has been obligated to 27 Title 16 projects and will create 270,000 feet of water in FY2010 and FY2011.

The implications of \$950,000,000 in new and "extra" funding being suddenly injected into the Bureau will be a topic of continuing interest both to Congress and to WESTCAS.

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**WESTCAS**  
Western Coalition of Arid States

Chairwoman Grace F. Napolitano

Subcommittee on Water and Power

Opening Statement 7.15.10 Hearing

In April 2009, the Subcommittee on Water and Power held a hearing on the Bureau of Reclamation and USGS' implementation of programs receiving funding under the American Recovery and Reinvestment Act (ARRA). Fast forward 16 months to today and we can see irrefutable evidence that the investments provided in ARRA are creating jobs and getting America on the path to economic recovery. A recent Congressional Budget Office Report estimated that in the first quarter of 2010, ARRA policies have helped to increase the number of people employed by between 1.2 million and 2.8 million. We are not talking about jobs inside the beltway. We are talking about **real jobs** for people on the ground in our communities.

Specifically, today's oversight hearing will review the progress made by the Bureau of Reclamation in administering the American Recovery and Reinvestment Act (ARRA), and how projects identified to receive ARRA funding shape Reclamation's priorities for the future.

Commissioner Connor, We are pleased to see that Reclamation has obligated funds to 27 Title XVI projects, projected to create 270,000 acre-feet of water in FY 10 and FY 11. Half of the congressionally authorized Title XVI projects received ARRA funding, which has helped reduce the enormous backlog for these critical projects. Not only do these projects produce immediate construction jobs, they create permanent jobs through the operation and maintenance of the facilities. We expect, Commissioner Connor that Title XVI will continue to be a priority for Reclamation.

The bottom line is that most decisions regarding the allocation of Reclamation ARRA funds have been made. The bigger policy question we would like to discuss today is how ARRA funding will shape Reclamation's mission and priorities in the future; how issues of changing hydrologic conditions are taken into account; and the role of environmental mitigation in keeping the lights on and the water flowing.

There will be no doubt that questions remain about the projects identified to receive ARRA funding. There will be questions on overhead costs, and whether or not the uses of these funds were used in a fiscally responsible manner.

With this in mind –and in looking at the future of Reclamation's priorities in creating new water supplies –I would like to request a GAO Report to examine the legacy costs associated with federally funded Reclamation projects, including dams, Title XVI projects, and other programs. It is important that we have an accounting of the full costs being born by taxpayers, evaluating whether these projects are being reimbursed to the Treasury and determining what is the best deal for taxpayers. Commissioner, I want your full support in ensuring that Reclamation will be responsive once this request is made, and I ask my Republican colleague Mr. McClintock to join me in requesting this GAO study.

To conclude my remarks, Congress must continue to focus on investing in future economic growth through funding infrastructure projects and getting Americans back to work. We must also ensure that the Federal government is a responsible steward of our resources.

**Statement of Michael L. Connor  
Commissioner, Bureau of Reclamation  
U.S. Department of the Interior**

**Before the  
Subcommittee on Water and Power  
Natural Resources Committee  
U.S. House of Representatives**

**On  
Implementation of the American Recovery and Reinvestment Act of 2009 (P.L. 111-05)  
July 15, 2010**

Madam Chairwoman and members of the Subcommittee, I am Michael Connor, Commissioner of the Bureau of Reclamation (Reclamation). I am pleased to provide the views of the Department of the Interior (Department) regarding Reclamation's progress in implementing projects funded through the American Recovery and Reinvestment Act of 2009 (P.L. 111-5).

In February 2009, President Obama signed the American Recovery and Reinvestment Act (Recovery Act). This Act provided Reclamation with \$1 billion to preserve and create jobs and to stimulate the economy of the United States. As permitted by the Recovery Act, \$50 million was transferred to the Department's Central Utah Project Completion Act (CUPCA) program, which is now fully obligated. To date, \$46.5 million of the \$50 million appropriated to CUPCA has been expended.<sup>1</sup> After the CUPCA transfer, Reclamation had \$950,000,000 to expend on water resources and hydropower projects in the 17 Western States.

I am pleased to report that as of June 30, 2010, Reclamation has obligated more than \$774,414,000, which is approximately 82% of our total appropriation. Reclamation has mobilized, begun work on the ground, for 131 out of 178 projects. The Council of Economic Advisers has provided guidance that one full time equivalent job year is created or saved by spending \$92,136. Using this figure, Reclamation's \$950 million funding would be equivalent to approximately 10,300 jobs throughout the economy. We are still tracking actual jobs created.

Prior to, and in anticipation of, the enactment of the Recovery Act, Reclamation collected extensive data on potential projects and activities that would be "shovel ready" and would result in the creation and preservation of jobs and create economic opportunities. Reclamation described this process at a previous Recovery Act hearing before this subcommittee on April 28, 2009. Upon enactment of the Recovery Act, Reclamation completed the intensive selection process using a multi-tiered, merit-based evaluation process. At the completion of that process, 191 projects were originally selected and approved by the Department and the Office of Management and Budget to be completed using Recovery Act funding. Their status as of today is shown in the attached "Summary of Major Projects" document.

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<sup>1</sup> As explained on page 3, Recovery Act funds are considered "obligated" when a project contract is in place, and "expended", or "outlayed", when the funds have been transmitted to the contractor or recipient.

Reclamation’s Recovery Act-funded projects fall into 6 major investment areas, and the current allocations, plus administration costs, are summarized below as:

• Meeting Future Water Supply Needs	\$442.57 Million
• Infrastructure Reliability and Safety	\$167.25 Million
• Environmental/Ecosystem Restoration	\$218.45 Million
• Green Buildings	\$13.5 Million
• Water Conservation Initiative (WaterSMART Grants)	\$40.0 Million
• Emergency Drought Relief	\$42.48 Million
• Administration	\$4.75 Million

The figures above total \$929 million, not \$950 million, because of projects which, in the course of implementing the Recovery Act, have been deferred or cancelled. The allocation of the remaining \$21 million is currently under review by Reclamation, the Department and Office of Management and Budget (OMB), and will be allocated in the coming weeks to additional alternate, or “overtarget” projects consistent with the same multi-tiered, merit-based evaluation process.

Recovery Act projects to repair and replace Reclamation’s “aging infrastructure” were generally allocated funds under the Infrastructure Reliability and Safety, or the Future Water Supply Needs investment categories. Responsibility for the maintenance of a significant amount of Reclamation’s older infrastructure has been transferred to non-Federal operators pursuant to contracts, and very little of Reclamation’s Recovery Act appropriation has been devoted to these facilities. This is because non-Federal operators generally did not have capability to expend Recovery Act funds within the required timelines, and because large infusions of Recovery Act funding presented repayment challenges for them.

Consistent with the Recovery Act guidelines, funding was allocated to programs, projects, or activities that will complete either a project phase, or a project, or will provide a useful service that does not require additional funding. The Recovery Act does not provide funding for any new projects or programs not previously authorized by Congress. Accordingly, all selected projects are authorized and would be undertaken by Reclamation in the normal course of business. They were identified from Reclamation’s program formulation process, out-year budget projections, and long-term investment plans.

Reclamation reviewed approximately \$2 billion worth of potential Recovery Act projects. In the spirit of the Recovery Act, Reclamation and the Department considered:

- (1) Recovery Act general objectives (e.g., creating jobs and investing in infrastructure) and Administration policy objectives (e.g., improving energy efficiency and assisting Native Americans);
- (2) Priorities specific to Reclamation as required by the Recovery Act and its Conference Report and as established by the Department;
- (3) Reclamation’s overall program priorities; and
- (4) Criteria for selection of projects within individual program investment areas.

Section 1603 of the Recovery Act requires that all funds appropriated by the Act be obligated by the end of this fiscal year, unless expressly provided otherwise by the Act. To comply with Section 1603, Reclamation has established plans to obligate approximately 95% of the Recovery Act project funds by September 30, 2010. The Recovery Act provides an ability for authorizes Reclamation to allow retention of funds that would otherwise expire on September 30, 2010 to pay the costs of supervision, inspection, overhead, and engineering and design on Recovery Act projects, and of claims, if any, arising after that date.

During the project selection process, the Department placed special priority on those projects which could maximize expenditures by the end of fiscal year 2010, not just be obligated. In general, funds are considered “obligated” when a project contract or financial assistance agreement is in place, and “expended,” or “outlaid,” when the funds have been transmitted to the contractor or recipient. Accordingly, we expect that nearly all projects which we have selected will be well along by the end of fiscal year 2010 and completed by the end of fiscal year 2011, although a few will not be completed until fiscal year 2012. Reclamation also has been continuously identifying alternative projects in case approved projects cost less than expected or need to be replaced because of financial or scheduling problems. We are currently reviewing these alternate or “overtarget” projects in case funding should be made available and would need to be obligated before the Act’s September 30, 2010 deadline.

With regard to Reclamation’s overall Recovery Act priorities, we gave priority to projects which, through the acceleration of construction already underway, would achieve more efficient construction schedules, probable cost reductions, and an earlier realization of project benefits. We are funding a relatively small number of large construction projects, with the use of funding balanced across program investment areas to maximize the benefit from this appropriation. For this reason, project timelines and the transmittal of funds will vary depending on the state of a project at the time when Recovery Act funds are provided.

Within certain programs, Reclamation used evaluation criteria specific to those individual programs, such as dam safety projects, Title XVI water reclamation and reuse projects, water conservation grants, and infrastructure repairs and replacements. These have been documented in the Department’s April 14, 2009 letters to the Senate and House Committees of jurisdiction.

Of special interest to this Subcommittee, Reclamation has gone beyond the \$126 million reserved for Title XVI projects funded by the specific language in the Recovery Act, allocating a total of \$135.79 million to water reclamation and reuse west-wide. To date, at least \$122.3 million of that \$135.79 million has been obligated.

In order to ensure a consistent, transparent and efficient process for oversight and management of our overall Recovery Act Implementation effort, a Reclamation-wide Recovery Act Implementation Team (Team) was established and has been providing leadership and oversight to our effort. One of the important functions that the Implementation Team plays is to review and track the “in target” projects to ensure that they are progressing on schedule and within the budgets established. A small number of projects have been removed from the original in-target list for a variety of reasons relating to contracting, technical or scheduling problems, or because the non-Federal partners were unable or unwilling to adhere to the statutory requirements (two examples are the Buy American and Davis-Bacon wages requirements).

Owing to economic conditions in many areas of the country and the west, some contractor bids have come in below the government estimate – thereby making some Recovery Act funds available for additional activities. This has enabled Reclamation to maximize the effectiveness of Recovery Act funding. The funds made available from low bids or cancelled projects are generally being obligated pursuant to the following priorities:

- Provide additional funding to existing, in-progress projects which received higher than expected bids and need the additional funds to allow for contract award;
- Fund construction contingency and project management costs for awarded projects, preventing the need for additional appropriations;
- Fund identified alternate projects.

With regard to the original list of alternate projects described on page 2, Reclamation has been able to fund six additional projects beyond its original alternate project selections. Projects that were not among the original set selected for funding are subject to approval by the Department, the Office of Management and Budget, and the White House. As additional funds become available, additional projects are being identified, approved and having funds allocated to them in order to maximize available resources and job creation.

In order to track and process changes to Recovery Act project schedules, costs and cancellations or deferrals, Reclamation has established a formal “variance” review and approval process. In contrast to alternate or “overtarget” projects, variances are any changes to an original, existing project’s schedule or budget that are formally submitted by Reclamation’s Regional Directors to the Implementation Team. Upon receipt by the Implementation Team Chair, each variance request is reviewed by the Team which makes a recommendation to Reclamation’s Deputy Commissioners. Upon the Deputies’ review and acceptance, each variance must be approved by the Commissioner of Reclamation to assure consistency with the Reclamation program and overall Recovery Act goals.

It should also be noted that the Bureau’s Recovery Act dollars have gone to projects and activities in each of Reclamation’s five regions, including over \$400 million to the State of California.<sup>2</sup>

## **Conclusion**

This description of the process for executing the Recovery Act is intended to illustrate how Reclamation has participated in what has been a milestone moment in the history of American infrastructure. Reclamation is proud to play a role in supporting this country’s economic recovery while addressing water resources needs west-wide. Accordingly, Reclamation is committed to ensuring that we are protecting the public’s resources and efficiently implementing our Recovery Act projects.

As required by the law, we began reporting on our progress in implementing the Recovery Act with the first posting on March 3, 2009 to the Recovery.gov website and continue to do so on a regular basis. On March 19, 2009, the Department submitted a general plan for the expenditure

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<sup>2</sup> Information available at <http://recovery.doi.gov/>.

of Recovery Act funds which met the requirement in Title IV of the Recovery Act to submit a quarterly report beginning no later than 45 days after enactment. The aforementioned April 14 letter to the Appropriations Committees then provided a list of the projects which had been selected for funding with the \$1 billion appropriated to Reclamation by the Recovery Act. We will, of course, continue to provide all required reports.

The Department has established its own specific web page at [www.doi.gov/recovery](http://www.doi.gov/recovery), which links to Recovery.gov and displays more in-depth information on Recovery Act projects undertaken by Reclamation. This site will be kept up-to-date as we progress so that our Recovery Act projects and activities, and the expenditure of funds, are fully transparent.

This concludes my written statement. Thank you for the opportunity to describe actions being taken to implement projects and create jobs under the Recovery Act. I would be pleased to respond to your questions.