WATER RESOURCES DEVELOPMENT PROJECTS

I. Description of Investment

Water resources projects serve several purposes including navigation (deep water ports and inland waterways), flood and storm damage reduction, hydropower generation, water supply for irrigation and municipal and industrial purposes, recreation, fish and wildlife mitigation and enhancement, and soil conservation. The Army Corps of Engineers, the Bureau of Reclamation (Interior), the Natural Resources Conservation Service (Agriculture), and the Tennessee Valley Authority are the major water resources agencies. These agencies usually finance project investments in cooperation with local project sponsors according to cost-sharing requirements prescribed by law. In FY 1998, funding on water resources development construction projects totaled about $2.0 billion, about $1.6 billion of which was for the Army Corps of Engineers.

II. Decision Making Process

As required by law (P. L. 89-80, as amended), the Federal water resource development agencies formulate and evaluate projects according to procedures prescribed in the "Economic and Environmental Principles and Guidelines for Water and Related Land Resources Implementation Studies." The Principles and Guidelines are intended to ensure proper and consistent planning by Federal agencies in developing and evaluating water resources development projects. The Principles and Guidelines include standards for formulating alternative plans, evaluating benefits and costs, and assessing environmental effects and any necessary environmental mitigation. Agencies are required to select the alternative plan with the greatest net national economic benefit consistent with protecting the environment, unless the head of the agency grants an exception based on special circumstances.

Under Executive Order 12322, before any agency submits a project report to Congress for approval, legislative action, or appropriation, the agency is required to submit the plan or report to OMB for review to ensure its consistency with the Principles and Guidelines and other Administration policies. OMB conducts a technical and policy review that focuses on such issues as: 1) whether the project serves a Federal interest and is otherwise consistent with Administration policies, 2) conforms with cost-sharing requirements, and 3) adequately addresses environmental impacts. OMB's planning and policy review process under the Executive Order is the Administration's primary vehicle for ensuring that every project meets technical and policy standards. OMB typically reviews dozens of project reports annually, most of which address Army Corps of Engineers' projects.
The Administration generally evaluates water resource development projects at both the authorization and appropriations stages. Evaluation at the authorization stage enables the Administration to determine whether the project is a supportable candidate for inclusion in the Federal water resources development program based on technical, economic, environmental, and Administration policy considerations. Budgetary constraints do not allow for construction of all authorized and supportable projects. Therefore, the Administration applies an additional set of criteria during the appropriation stage when formulating the President's Budget. Generally, these additional criteria ensure that projects generating the greatest economic return to the Nation are given the highest priority in the Budget process, although consideration is also given to such factors as functional (i.e., navigation, flood control, environmental) and geographic distribution of projects. These criteria are also generally applied to establish an Administration position on projects not requested in the President's Budget that are added by Congress.

III. Specific Factors Related to Investment Decisions

Long-term Planning: As part of the annual budget review process, OMB and the agencies review budget year and outyear funding needs for each project under construction or proposed for construction to ensure that the agencies' long-term capital spending plans are consistent with funding estimates. The Army Corps of Engineers annually adjusts its estimated funding and construction schedule for each project based on funding provided in the President's Budget and outyear planning estimates.

Full Funding: Water resource development projects have historically been funded incrementally, with budget authority provided each year to cover that year's expected expenditures. In the FY 1998 Budget, the Administration proposed full up-front funding for new Army Corps of Engineers and Bureau of Reclamation projects and full funding through advance appropriations for ongoing projects that would complete within 5 years. Following discussions with Congress as part of the Bipartisan Budget Agreement, this proposal was amended to provide for full funding through advance appropriations for both new and ongoing projects. The Appropriations Committees rejected this approach in FY 1998 and continued with incremental funding of these projects. The President's FY 1999 Budget reproposed full funding through advance appropriations for new projects and ongoing projects that would complete in five years. The Appropriations Committees, so far, have not supported this proposal.

Lumpiness: The Army Corps of Engineers has over 200 ongoing projects at different stages of construction at any one time that require a fairly steady level of total construction program funding. However, there could be "lumpiness" in budget authority if projects were fully funded up-front in those years when one or more large project (e.g., major navigation improvements) begin construction. A full up-front funding approach would tend to pose greater problems of lumpiness for the Bureau of Reclamation and other water resources development agencies that have smaller base construction programs.
**Benefit-cost analysis:** The national costs and benefits of all water resource development projects are required to be evaluated under the Principles and Guidelines for water project planning. Prior to budgeting for construction, the benefit and cost information is updated to ensure that decisions are made on the most current information available.

**Project Management:** Project authorizations generally specify the projected total cost and Federal costs for each project and Congress must take additional legislative action in those cases where expected costs to complete construction of the project exceed the authorization amount by 20 percent after inflation. In these cases, the Administration will report to Congress the reasons for exceeding the ceiling, the current estimated costs to complete the project, and provide updated information on the project's benefits and costs.

**Cost Sharing:** Most water resource development projects require local sponsors to pay a share of construction costs and, for many projects, local sponsors are responsible for project operation and maintenance after construction is completed. Both of these factors help put some pressure on the Army Corps of Engineers and other Federal agencies to reduce project costs and eliminate unnecessary features. However, they also put pressure on the Federal government to provide adequate funding to complete projects on schedule, since delays in completion add to the costs of the non-Federal sponsors as well as the Federal government.

*President's Commission to Study Capital Budgeting*