

Columbia-Snake River Irrigators Association Policy Memorandum

DATE: April 4, 2016

TO: Board of Directors, East Columbia Basin Irrigation District (ECBID);
Mr. Craig Simpson, Manager, ECBID; Mr. Richard Lemargie;
Counsel, ECBID

FROM: Ron Reimann, President, CSRIA
Darryll Olsen, Ph.D., Board Rep. and Resource Economist

SUBJECT: Settlement Agreement for Outstanding Litigation; CSRIA Proposed
Assessment to ECBID to Build Surface Water Distribution Systems

Representing System 1 (and 2 and 4) Irrigators, the CSRIA remains open to a litigation settlement with the ECBID Board, to allow for private construction of new surface water delivery systems from the East Low Canal (ELC).

In the attached memorandum describing the economics, and potential transfer payments and subsidies, now surrounding irrigation system development, Table 2 details the Irrigators/CSRIA proposal for an assessment.

The Irrigators/CSRIA assessment (\$125/acre) proposal to ECBID provides for:

- Full private sector funding and construction of System 1 (and other systems).
- Full private sector funding for the remaining modifications to ELC, estimated to be about \$28 million (in addition to the state's 2013 contribution of \$27 million).
- Full private sector funding for all District and USBR OM&R costs.
- Full private sector funding for the new systems' integration and management.
- Private sector transfer payments to the District for undefined costs or services.

The Irrigators/CSRIA assessment proposal:

- Does not rely on any further state/federal subsidies or transfer payments to complete System 1 (or other system) development.
- Already has received formal lender borrowing authority for about \$42 million, with further lending commitments for up to \$100 million with receipt of the water service contract for System 1.

Continued objection to direct private sector funding/development only makes the state's 2013 funding allocation to ELC modifications appear fiscally irresponsible.

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Columbia-Snake River Irrigators Association Technical-Policy Memorandum

DATE: March 22, 2016

TO: Odessa Subarea Irrigators and N/S-I-90 System Participants
Mr. Tom Tebb, Director, Office of the Columbia River
Legislative Leadership and Interested Parties

FROM: Ron Reimann, President, CSRIA
Darryll Olsen, Ph.D., Board Rep. and Resource Economist

SUBJECT: The Economics of the East Columbia Basin Irrigation District (ECBID)
Assessment Fee, Transfer Payments, and Future Direct Subsidies

Irrigation System Common Costs and Transfer Payments:

Tables 1 and 2 attached provide a breakdown of the ECBID assessment per acre, where irrigators would pay for their own irrigation distribution systems served by the East Low Canal (ELC); the Tables contrast the transfer payment differences between the ECBID assessment versus the Irrigator-CSRIA proposed assessment.

Transfer payments are costs that exceed the costs of future (additional) ELC modifications—estimated here at about \$28 million—and the costs of USBR-ECBID OM&R and construction payments. There is no product or service acquired by the Irrigators for the transfer payments; there is no “common benefit” received by the Irrigators from the District.

In Table 1:

- The ECBID transfer payment exceeds actual ELC modification costs, and USBR-ECBID costs, by about \$86/acre/year; or a “straight-line” sum of about \$2,600/acre over the economic life of the project (no discounting).
- The transfer payments are an annual Irrigator expense, in addition to the capital costs of building their own systems.

In Table 2:

- The CSRIA proposed assessment provides for full coverage of the USBR-ECBID costs, the ELC modification and systems’ management/integration costs; and includes a transfer payment set at \$23/acre/year.
- Given 75,000 acres developed over 30-years, this represents about \$52 million—all in transfer payments to the District.

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Systems' Construction, Future Public Subsidies?

In addition to the financial factors described above, the systems' development question also is obfuscated by whether private capital construction should be supplanted by ECBID public sector funding (if available); and whether additional public funding should be subsidizing systems' development. To date, the state of Washington has already funded \$27 million in ELC modification costs (2013), not including other study funds provided to the USBR and other federal funds recently contributed to ELC improvements for S-I-90 water deliveries.

Even so, System 3 Irrigators currently suggest that: 1) they prefer to not use their own capital funding resources to build the system, opting for some form of public sector financing; and 2) they do not want to pay more than \$200/acre/year for System 3 development, including all capital and OM&R costs. This second point means that, because ECBID cannot possibly build the system at this cost level, additional capital funding would be required--from some other undetermined public source.

The \$200/acre/year "repayment schedule" called for by the System 3 Irrigators represents an amount that is roughly equivalent to their existing well construction/operation and power pumping annual costs. In effect, if the System 3 costs became \$200/acre/year, the costs of new system development would be equal to their existing costs, with no additional (marginal) system development and operation costs bore by the Irrigators—others would be expected to subsidize these costs.

Systems' Construction, Private Sector Development:

For CSRIA, it is unrealistic to propose that either burdensome ECBID transfer payments or additional state-federal subsidies will build the multiple irrigation distribution systems along the ELC. The inherent fallacies stalking such notions should be apparent.

In stark difference to the above, the private sector financing and construction approach preferred by many of the Irrigators/CSRIA constrains abusive transfer payments—where no common benefits exist—and rejects the folly of skipping down an illusionary path begging for nonexistent public funding subsidies.

The Table 2 proposed CSRIA assessment provides for future canal modifications and additional funding beyond the District's real costs of development. The ECBID should not be looking a gift horse in the mouth; and it should be focusing exclusively on fulfilling its primary obligation, the completion of the ELC modifications.

With the costs of well capitalization/pumping removed, the Irrigators are in a position to better utilize their own capital resources to pay for new system(s) construction, in the most cost-effective way possible, and to contribute to the actual ELC costs that will provide access to all proposed systems north and south of I-90.

Two years ago, the CSRIA made clear to ECBID/USBR, Ecology, and state legislators that Odessa Subarea surface water delivery systems depended on direct private sector financing and development. Are we going to waste another two years?

Attachments: Tables 1 and 2.

**Table 1. ECBID Costs of Service and Canal Development
With Systems N/S-I-90 Capital Costs Paid by Private Sector Financing
Annual Assessment\$/Acre**

**Combined Water Supplies , LRIRP, CC, Supplemental Permit
(based on allocations of 3.0 acre-ft./acre)**

	Cost Category	Annual Payment Structure	\$/Acre/Year
1	Development Fee--ELC Modified	30-Years (ECBID Capital\$) with Public Financing?*	\$29.0
		Irrigator Cash Expense	
	N/S-I-90 Systems-ELC O&M (for Integrated Systems Management)	Irrigator Cash Expense	\$5.0
	N/S-I-90 Systems TRANSFER PAYMENT to ECBID Common Costs**	Irrigator Cash Expense	\$86.0
	SUBTOTAL:		\$120.0
2	Operation & Maintenance	Irrigator Cash Expense	\$47.0
3	Emergency Reserve	Irrigator Cash Expense	\$0.5
4	Construction Repayment-Cons.	Irrigator Cash Expense	\$0.9
5	Construction Repayment-LRIRP	Irrigator Cash Expense	1.75
6	Construction Repay-CC-SBST	Irrigator Cash Expense	\$3.0
7	Construction Repay-LRIRP-SBST	Irrigator Cash Expense	\$6.0
8	Construction WSC-LRIRP	Irrigator Cash Expense	\$7.5
9	Pump Charges--Existing Debt	Irrigator Cash Expense	\$1.7
10	Account Fee @\$40/Account	Irrigator Cash Expense	-----
	SUBTOTAL:		\$68.4
	TOTAL DEVELOPMENT FEE AND OM&R:		\$188

* Public sector financing, if available, \$28MM, 5.8% interest, 30-years, for 75,000 acres developed.

** Transfer payments are payments not made in return for a product or service. They are a form of income redistribution, not a return to factors of production.

**Table 2. CSRIA PROPOSED Costs of Service and Canal Development
With Systems N/S-I-90 Capital Costs Paid by Private Sector Financing
Annual Assessment\$/Acre**

**Combined Water Supplies , LRIRP, CC, Supplemental Permit
(based on allocations of 3.0 acre-ft./acre)**

	<u>Cost Category</u>	<u>Annual Payment Structure</u>	<u>\$/Acre/Year</u>
1	Development Fee--ELC Modified	20-Years (ECBID Capital\$) with Private Financing* Irrigator Cash Expense	\$29.0
	N/S-I-90 Systems-ELC O&M (for Integrated Systems Management)	Irrigator Cash Expense	\$5.0
	N/S-I-90 Systems TRANSFER PAYMENT to ECBID Common Costs**	Irrigator Cash Expense	\$23.0
	SUBTOTAL:		\$57.0
2	Operation & Maintenance	Irrigator Cash Expense	\$47.0
3	Emergency Reserve	Irrigator Cash Expense	\$0.5
4	Construction Repayment-Cons.	Irrigator Cash Expense	\$0.9
5	Construction Repayment-LRIRP	Irrigator Cash Expense	1.75
6	Construction Repay-CC-SBST	Irrigator Cash Expense	\$3.0
7	Construction Repay-LRIRP-SBST	Irrigator Cash Expense	\$6.0
8	Construction WSC-LRIRP	Irrigator Cash Expense	\$7.5
9	Pump Charges--Existing Debt	Irrigator Cash Expense	\$1.7
10	Account Fee @\$40/Account	Irrigator Cash Expense	-----
	SUBTOTAL:		\$68.4
	TOTAL DEVELOPMENT FEE AND OM&R:		\$125

* Private capital financing, \$28MM, 4.5% interest, 20-years, for 75,000 acres developed.

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