



**TESTIMONY OF
RONALD D. JACOBSMA**

**INTERIM GENERAL MANAGER
FRIANT WATER USERS AUTHORITY
ON BEHALF OF THE
CENTRAL VALLEY PROJECT WATER ASSOCIATION**

BEFORE THE

SUB-COMMITTEE ON WATER & POWER

OF THE
RESOURCES COMMITTEE
OF THE

U.S. HOUSE OF REPRESENTATIVES

HEARING ON:

**BUREAU OF RECLAMATION'S
FACILITY TITLE TRANSFERS:
LESSONS LEARNED AND FUTURE OPPORTUNITIES**

MARCH 24 2004

WASHINGTON, D.C.

United States House of Representatives
Resources Committee
Subcommittee on Water and Power
The Honorable Ken Calvert, Chairman

Written Testimony of Ronald D. Jacobsma, Interim General Manager
Friant Water Users Authority
Representing the Central Valley Project Water Association
March 24, 2004

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I very much appreciate being given the opportunity to testify before the Subcommittee to provide the water contractor perspective regarding title transfer of Reclamation funded facilities, Central Valley Project (CVP) water contractor repayment contracts and operation and maintenance (O&M) costs associated with the CVP.

Introduction

I'm Ron Jacobsma, Interim General Manager of the Friant Water Users Authority (Authority). The Authority is a joint powers authority formed under California state law comprised of 22 member agencies that all receive water from the Friant Division of the CVP. Today, I am also representing the Central Valley Project Water Association (CVPWA), where I serve as a Board member and the Chairman of the CVPWA Financial Affairs Committee. The CVPWA currently represents in excess of 80 Central Valley Project (CVP) water "contractors." These are agricultural and urban water agencies that purchase water from the CVP under contracts with the Department of the Interior.

I'm also a Certified Public Accountant and in the past I served as the Authority's Business Operations Manager. Additional personal and professional information is attached as Exhibit A.

Since 1986, the Friant Water Users Authority has operated and maintained the Friant-Kern Canal, a 152-mile conveyance facility in the Friant Division of the CVP. Until 1998, the Authority's operation and maintenance (O&M) costs were funded through the Bureau of Reclamation under a cooperative agreement. The Authority now obtains its funding for Friant-Kern Canal activities directly from the water contractors served by the Friant-Kern Canal. The Authority's operation of this federally-owned facility has been highly cost effective. For example, during a recent five-year period, our O&M costs remained essentially flat, while the Bureau's costs rose 60 percent. (See Exhibit C.)

The Friant Division of the CVP serves approximately one million acres of the world's best farmland on the eastern side of the San Joaquin Valley. The service area encompasses nearly 15,000 mostly family-owned farms with an average size of approximately 100 acres. These small

farms grow a huge variety of crops. The majority of the service area is dedicated to permanent plantings of grapes, nuts, tree fruit and citrus, but there also is a significant amount of row and field crops, and the region leads the nation in dairy production. In total, the farms watered by the Friant Division of the CVP have a gross production of nearly \$4 billion annually – all in a place where it doesn't rain during most of the growing season. Irrigation is the foundation and key to our success.

The Friant Division utilizes highly efficient means of irrigation water application, arguably on par with the best systems found anywhere in the world. The service area also has a well-developed and effective system for the conjunctive management of highly variable surface water supplies and good quality groundwater supply. Wet year water supplies are used to recharge ground water basins. These ground water basins are then drawn upon in dry years. This conjunctive use system has been successfully employed for over 50 years.

Title Transfer

While CVP contractors have previously explored title transfer of the CVP, rest assured that such a proposal is not the focus of today's discussion. The complexities of the CVP require that discussion to be put off for another day. Rather, a significant number of CVP contractors are interested in discussing an expeditious and economical means of transferring title to local distribution facilities which have been financed by the U.S. Bureau of Reclamation (Reclamation).

In the Friant Division alone, at least 10 local agencies have paid off, or nearly paid off, Reclamation provided financing for their district facilities. These districts pursued title transfer with Reclamation but were confronted with significant environmental, land, and cost issues.

For example, environmental work associated with the title transfer was anticipated to include an on site evaluation of all district facilities. Such an effort is labor intensive and would require a great deal of coordination as many of the facilities underlie or overlay private property. Districts question the value or means of locating specific underground pipelines and determining environmental impacts. Transfer of title to district facilities will not in and of itself result in any change in district operations. Thus, environmental impacts and the related evaluation should be minimal. Yet, it has been suggested that Reclamation personnel may be required to walk along all district facilities, including pipelines, pumping stations, and/or irrigation ditches to identify potential Endangered Species Act or other environmental issues. The districts desire for Reclamation to explore alternative means of accomplishing environmental assessment in a more cost effective manner.

Land issues are also of a concern to the districts. Many of these facilities are over 40 years old. Records relating to easements, recordings, right-of-ways, etc. are not always readily available or exact. Generating exacting surveys and recordings will be time consuming, expensive and unnecessary. Again, these facilities have existed in most cases in excess of 40 years and any problems relating to title have long since been resolved or are readily worked out as they occur. The districts are ready, willing and able to deal with these issues as they arise. As the title transfer is envisioned to consist of a quitclaim conveyance, use of existing records supporting the location and manner of title to district facilities should suffice.

The two activities noted above plus Reclamation involvement in other aspects of title transfer for local facilities have resulted in cost estimates in the tens of thousand of

dollars for each individual district, in spite of efficiencies potentially gained by economies of scale associated with combining and coordinating activities on a multiple district basis.

Local districts are currently paying their own facility O&M costs and have fulfilled their repayment obligations to Reclamation. Reclamation oversight of district facilities is no longer necessary or desired. Districts are prepared to assume all the rights, benefits and obligations of holding title to their own distribution facilities. The districts are anxious to formally record these facilities as their own assets, thus providing value to the district. For instance, the facilities could then be used as collateral for securing financing for district improvements aiding in further irrigation efficiencies.

As a result of the environmental, land and cost issues noted above, districts have currently discontinued pursuit of title transfers pending a more economical means of accomplishing this objective. We respectfully request that Reclamation revisit the level of effort associated with the transfer of title of local district facilities in order that such transfers may be accomplished in an expedited, efficient and cost effective manner.

On a related note, portions of the CVP are likely to be appropriate for consideration for title transfer. For example, the San Felipe Division is a discrete portion of the project that is paid for and maintained separately from the in-basin facilities. At some point it may make sense for the San Felipe Division contractors and Reclamation to negotiate terms for title transfer. The San Felipe Division contractors are already fully funding and performing all O&M functions and there has been an initial indication of interest in exploring the acquisition of title. These contractors would like to meet with Reclamation at some point to gain a better understanding of the issues associated with title transfer.

Conversion of CVP Water Service Contracts to Repayment Contracts

Water agencies are currently provided CVP water under water service contracts with Reclamation. The long term renewal contracts for the Friant Division, and presumably other CVP contractors, when renewed, provide a provision for conversion of the water service contracts to repayment contracts. Conversion is envisioned by the year 2024.

Many CVP water contractors, particularly Friant Division water contractors who have executed long term water service contracts, are interested in accelerating the effort associated with conversion of the contracts to repayment contracts.

Let me explain the difference between water service contracts and repayment contracts in relatively straightforward terms as viewed by our water service contractors. Water service contracts could be compared to a lease agreement. During the term of the lease, uncertainty exists as to potential renewal of the lease. At the end of the lease, the tenant has no ownership interest in the property. Repayment contracts, on the other hand, could be viewed more along the lines of a mortgage arrangement. Certainty exists with respect to the utilization of the property during the term of the mortgage. Upon the repayment of the mortgage, title to the property is anticipated to be transferred to the mortgagee. CVP contractors are seeking greater certainty with respect to their investment in the CVP.

It is important to note that water service contracts are the norm in the CVP but are the exception elsewhere for Reclamation water contractors as most other Reclamation facilities employ repayment contracts.

Water contractors are currently paying the annual O&M costs and a portion of the capital costs of the project each year. Capital costs are anticipated to be fully recovered for

CVP in-basin facilities by the year 2030. Since contractors are paying all costs associated with the facilities, it would seem that a repayment contract would be a more appropriate legal vehicle to reflect such district obligations.

Repayment contracts would also provide value to Reclamation in that a contractual commitment would be obtained by contractors for repayment of their share of capital costs. Such contracts could also provide a more predictable capital recovery scenario, one in which capital costs would be recovered on a programmatic basis independent of annual water deliveries.

A number of challenges and questions surface with respect to this effort: 1) The CVP has not been designated as completed, a necessary step to move to repayment contracts; 2) A final cost allocation would be needed to identify benefits and costs assignable to the reimbursable aspects of the project, including the water contractors; 3) Capital obligations are allocated currently based on water deliveries through the year 2030, resulting in uncertainty as to the appropriate final allocation of costs to individual contractors at the present time; and 4) Significant capital items may be added to the CVP facilities prior to 2030, and repayment of those items would need to be addressed.

With respect to the CVP being designated as complete, Congress would need to make such a finding. While no projects are currently being added to the CVP, a number of facilities are currently being contemplated either as part of the original plan for the CVP or as a result of studies associated with the CalFed Record of Decision. The extent of federal, state and local participation in such projects, in the event they were to be constructed, is uncertain. In the event that such facilities were constructed, the beneficiaries of the project could be identified, including CVP contractors, and a separate repayment contract could be established for those facilities. Thus, it is quite possible that Reclamation and Congress could evaluate whether it is appropriate to acknowledge that the CVP is complete at the present time.

Once deemed complete, a final cost allocation could be conducted. An interim cost allocation has recently been updated by Reclamation. A final cost allocation has been discussed between Reclamation and the water contractors, but due to the uncertainties of water supplies, contract renewal, environmental benefits, and other issues, it was determined that such an effort should be deferred. With contract renewals, water supply reliability plans and environmental water requirements gaining greater certainty, a final cost allocation may be right for pursuit in the near future. As these issues progress, water contractors will work with Reclamation to determine the potential to pursue the timing, cost and benefits of a final cost allocation study.

While a final cost allocation provides the basis for establishing the reimbursable aspect of the CVP to water contractors, a sub allocation of those reimbursable costs is still necessary. The current ratesetting process further allocates those costs to individual contractors based upon water deliveries through 2030. Each individual contractor's share could be determined by locking in their share based upon current realistic expectations of future water deliveries, or alternatively, a "variable" allocation could be developed which would fluctuate each year as actual deliveries are updated annually. By the year 2030, each contractor would have then paid their total capital obligation based upon actual deliveries for the repayment period.

Finally, similar to the discussion of adding additional major features to the CVP after the project is declared complete, ongoing investment in the CVP which are capital in nature could be added to the capital costs of the project as such costs are incurred and could be allocated based upon the benefits provided, consistent with the final cost allocation, and further allocated to the contractors based upon the sub allocation procedure described above for individual district capital repayment obligations.

Water contractors will continue to work with Reclamation to determine the appropriate timing relating analysis of the variables associated with pursuit of conversion of the water service contracts to repayment contracts.

CVP Water Cost Increases

During a hearing of this committee on September 29, 1999, Dick Moss, the Authority's General Manager at that time, testified on concerns over increasing water rates to irrigation contractors and the devastating impacts to the agricultural community, especially the small family farms that Reclamation projects were designed to serve, that resulted from these additional costs. A copy of that testimony is attached as Exhibit B.

Unfortunately, the general condition of the small family farm and the irrigation districts that provide water service to those farmers has changed little since that time. Ever increasing input costs, including water costs, and ongoing depressed commodity prices continue to take their toll on our farmers. Furthermore, such price increases frustrate cost effective means of fulfilling the conjunctive use aspect of the Friant Division, a tenet of the Friant Division. Similar negative impacts of price increases are felt throughout the CVP irrigation community. Such price increases are becoming ever increasingly difficult for M&I contractors to cope with as well.

Mr. Moss also noted in his testimony that Reclamation was initiating a process with the water contractors that allowed for greater review, input and recommendations to Reclamation's O&M activities and related budgets. I'm pleased to report that Reclamation continues to work with contractors to refine and improve this process, but much more needs to be done.

Despite our best efforts over the past few years, Reclamation water costs continue to escalate at many times the rate of inflation. For example, a representative district of the Friant Division, Delano-Earlimart Irrigation District (DEID), has experienced a nearly 400% increase in its water costs for the year 2004 as compared to the year 1989. A breakdown of the cost components comprising the water rates and an illustrative chart are attached as Exhibit C.

While the imposition of Central Valley Project Improvement Act (CVPIA) charges constitute a considerable portion of the increase in water costs, the water rate component known as "water marketing" constitutes the biggest single increase in Reclamation water costs passed on to water contractors. In 1989, water marketing amounted to \$0.20 per acre foot for irrigation water. That same charge has, in 2004, now escalated to \$7.59 per acre foot, a 3,800% increase! And this during an era when Reclamation was presumably struggling for funding.

It seems as if "water marketing" has become the catch-all, or black hole, for Reclamation costs. Water contractors continue to struggle to understand the magnitude of activities and charges being accumulated in this cost component, despite our participation in budget development for the CVP.

An extensive effort is now being undertaken by the water contractor community to identify specific activities being charged to this cost component. We plan to address our findings with Reclamation in order to gain further insight as to the necessity and extent of the costs associated with specific activities.

We also plan on exploring with Reclamation ways in which to provide greater input into the establishment of budgets for the CVP. The current federal budget process does not

allow contractor input into the final budget development. Rather, we are essentially limited to reviewing proposed “Activity Plans” for the applicable budget cycle and providing a recommendation as to the contractor’s perspective on the level of priority.

The budgets associated with these Activity Plans are presented as “unconstrained”. No differentiation is made between core, preferred or extraneous activities and associated costs. Thus, water contractors are faced with a difficult decision regarding our recommendation for funding priority without the knowledge of what constitutes essential services.

Having these activities further delineated with respect to costs and benefits would go a long way towards improving our ability to understand the proposed activity and our resulting recommendations. Reclamation could then better utilize our recommendations as it considers prioritization of the proposed activities during its “constraining” of the budget.

Water contractors firmly believe that input by the rate payers is key to controlling water costs. Local control of the O&M program and budget development for CVP conveyance features, such the Friant-Kern Canal has resulted in considerable cost containment. By way of comparison, the conveyance charge for use of the Friant-Kern Canal has essentially not changed since 1998 while CVP irrigation O&M costs have increased by over 60%. This cost increase is simply not acceptable to water contractors.

Finally, it should be noted that cost increases are not the only factor affecting increases in water rates. The CVPIA and other environmental requirements continue to reduce water deliveries to CVP contractors causing an increase in the per acre foot charge for water. Replacement of this lost yield would greatly assist in reducing water costs in addition to providing greater water supply reliability within the CVP.

Thank you for the opportunity to present our thoughts on title transfer, repayment contracts and water costs for CVP contractors.

EXHIBIT A
IN SATISFACTION OF DISCLOSURE REQUIREMENTS

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EDUCATION

MANKATO STATE UNIVERSITY, Mankato, Minnesota
(B.A. (*summa cum laude*) Accounting; Business Administration-Finance;
Economics Minor - 1984)

WORK EXPERIENCE

FRIANT WATER USERS AUTHORITY, Lindsay, California (1989 to Present)
Interim General Manager: Oversee all aspects of Operations and Maintenance of the Friant-Kern Canal, a major conveyance feature of the Central Valley Project. Manage a broad spectrum of water and government related legal issues affecting the Authority and its twenty two member agencies. Analyze and advocate state and federal legislation. Prior to 2003, served as Business Operations Manager overseeing all financial aspects of the Authority's operations and review of water rates and costs of the U.S. Bureau of Reclamation Central Valley Project.

MID VALLEY MORTGAGE CORPORATION, Lakewood, Colorado (1986-1989)
Chief Financial Officer: Managed Lines of Credit, loan purchases, and accounting functions for this mortgage banking lender.

DELOITTE HASKINS & SELLS, Dallas, Texas (1984-1986)
Staff accountant: Specialized in audits of financial institutions for this international accounting firm.

PROFESSIONAL AND CIVIC ACTIVITIES

Current and Former Affiliations:

CENTRAL VALLEY PROJECT WATER AUTHORITY
Board Director
Chair of the Financial Affairs Committee
ASSOCIATION OF CALIFORNIA WATER AGENCIES (ACWA)
Federal Affairs Committee
State Legislative Committee (until 2002)
CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
SAN JOAQUIN RIVER RESOURCE MANAGEMENT COALITION
SAN JOAQUIN RIVER TASK FORCE & TECHNICAL COMMITTEE
SAN JOAQUIN RIVER GROUP AUTHORITY
VALLEY EMPLOYERS' ASSOCIATION (former director)
FAMILY FARM ALLIANCE