

## The Reclamation Fund

The Reclamation Act of 1902 authorized the Secretary of the Interior to construct irrigation works in western states through the Reclamation Service (later renamed the Bureau of Reclamation [BOR]). It also established the Reclamation Fund to pay for these projects. The Reclamation Fund was established as a special fund within the U.S. Treasury. (Special funds are fund accounts for receipts and spending with specific taxes or revenues earmarked for a specific purpose.) The fund was designated to receive receipts from the sale of federal lands in the western United States, as well as other sources. It was originally conceived as a revolving fund (i.e., a business-like fund). That is, after its initial capitalization by federal appropriations, receipts from existing project repayments were expected to fund new projects. Congress later made substantial changes to the fund, including adding new receipt sources and making it subject to annual appropriations.

### Early Issues with Reclamation Fund

During its early years, the Reclamation Fund was unable to operate as a revolving fund. Due in part to difficulties maintaining the fund's solvency, Congress provided it with additional funding and made changes to the fund over time. Following its earliest construction projects, the fund received additional amounts from Congress via the Treasury's General Fund in 1910 (\$20 million) and 1931 (\$5 million). In an effort to avoid future funding shortfalls, Congress in 1914 limited Reclamation's ability to carry out the 1902 act to those items for which Congress made annual appropriations to BOR (thereby rescinding its ability to build projects without further appropriation). Despite these changes, the Reclamation Fund was not sufficient to fund many of the large investments in water infrastructure throughout the West that were initiated beginning in the 1930s. Thus, construction of some large projects (e.g., Hoover and Glen Canyon Dams) was funded by the General Fund.

### New Receipts/Revenue Sources

Originally, the Reclamation Fund was expected to be funded by three main revenue sources: public land and timber sales in the western United States, BOR project repayment, and BOR project water contracts and sales (the latter two categories are typically referred to collectively as *proprietary receipts*). As a result of the aforementioned shortfalls in the fund, over time Congress directed additional receipts toward the Reclamation Fund, in the form of 40% of onshore royalties from mineral and natural resource leasing on public lands (authorized in 1920) and the full amount of Reclamation project power revenues (authorized in 1938). The latter change, known as the Hayden-O'Mahoney amendment, was enacted to secure power revenues from projects under construction at the time, such as Grand Coulee Dam and Shasta Dam. Later projects, such as the Pick-Sloan Missouri Basin Program

and the Central Valley Project, also provided significant hydropower revenues. Hydropower revenues from some other projects (e.g., the Boulder Canyon Project, the Colorado River Storage Project, and the Colorado River Basin Project) are deposited into their own special funds, in accordance with congressional direction. Major sources of receipts credited to the Reclamation Fund are shown below in **Table 1**.

**Table 1. Major Reclamation Fund Revenue Sources**

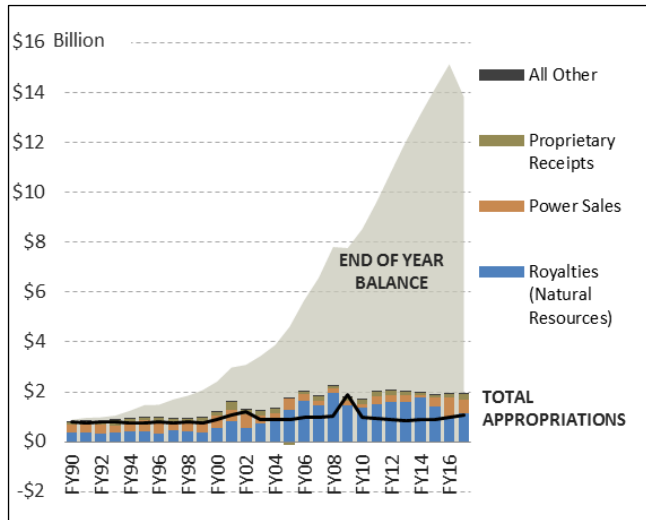
Source	Description	Year Authorized
Public Land and Timber Sales	95% of proceeds from sales in western states	1902
BOR Project Repayments and Water Contracts/Sales	100% of receipts/proceeds	1902
BOR Project Power Revenues	100% of proceeds	1938
Federal Public Lands Natural Resource Royalties	40% of bonuses, royalties, and rentals from onshore public lands (excluding Alaska)	1920

**Sources:** 43 U.S.C. §391; 43 U.S.C. §392a; 30 U.S.C. §191.

### Recent Trends

After the Reclamation Fund's early issues with solvency, it maintained a relatively stable balance through the early 1990s. At that point the fund's balance began to increase as revenues from natural resource royalties significantly exceeded appropriations from the fund. For every year since FY1994, except FY2009 (when the American Recovery and Reinvestment Act [P.L. 111-5] also appropriated funding for Reclamation projects from the fund), receipts going into the Reclamation Fund have exceeded appropriations made from it by more than \$100 million. From FY2010 to FY2017, the average difference between credits and appropriations was \$1.027 billion. As of the end of FY2017, the fund's balance was \$13.8 billion. Trends in fund credits, appropriations, and balances are shown below in **Figure 1**.

**Figure 1. Reclamation Fund Receipts and Appropriations, FY1990-FY2017**



Source: CRS, based on Bureau of Reclamation data.

**Appropriations.** Most expenditures of Reclamation Fund balances are made through appropriations to the Bureau of Reclamation's Water and Related Resources account, which funds operations and maintenance and construction costs for designated BOR water projects. (As noted above, other projects are funded by the General Fund or by individual project funds.) Appropriations also are made for the expenses under Reclamation's Policy and Administrative account (approximately \$60 million/year), and Western Area Power Administration's construction and maintenance activities (approximately \$180 million/year). Since FY2003, average appropriations from the fund have been \$1.006 billion.

**Receipts.** Average receipts since FY2000 have been approximately \$1.782 billion. Receipts from natural resource royalties and hydropower sales are by far the largest sources of credits to the fund and the primary reason for the fund's recent balance increase. From FY2003 to FY2017, 91% of the Reclamation Fund's receipts came from these two sources, including 75% from natural resource royalties. Based on the source (by state) of natural resource royalties credited to the Reclamation Fund from FY2003 to FY2017, CRS estimates that an average of 98% of natural resource royalty receipts came from seven western states: Wyoming (50%), New Mexico (27%), Colorado (7%), Utah (7%), California (3%), Montana (2%), and North Dakota (2%). (Pursuant to statute, natural resource royalties from Alaska are handled separately and do not accrue to the Reclamation Fund.)

## Understanding "Surplus" Fund Balances

Similar to other special funds that are subject to appropriation, the Reclamation Fund is an accounting mechanism within the larger federal budget and the fund's apparent "surplus" does not represent real resources available for spending. Instead, it reflects the status of the intended uses of the fund compared with actual

appropriations by Congress. The surplus balance tracked for the fund shows that in recent years, receipts credited to the fund have significantly exceeded appropriations made from it. Some point out that this runs contrary to the congressional intent of the Reclamation Act of 1902. However, Congress's direction since 1914 that fund expenditures be subject to annual appropriations means that the final say on the use of the fund rests with congressional appropriators. That is, Congress may at any time choose to increase or decrease appropriations from the fund to better correlate with incoming receipts and/or other congressional priorities.

## Recent Proposals

Some have proposed increasing appropriations from the Reclamation Fund, either by funding new projects or as a supplement to ongoing authorized BOR project expenditures. Such a change could take one or more forms, each of which may have associated budget scoring impacts. For instance, Congress could significantly increase discretionary appropriations from the Reclamation Fund to match collections, but such an increase still would have to compete with other appropriations (including those from the Treasury's General Fund) as they would be subject to congressional 302(b) allocations. Congress also could dedicate a stream of revenue from the Reclamation Fund for a subset of specific projects or to a new account. This could be done with or without further appropriations (i.e., discretionary funding or mandatory funding). Congressional PAYGO requirements might necessitate offsets in mandatory spending corresponding to these changes.

## Congressional Interest

Some have proposed altering the balance between receipts and appropriations by funding new or ongoing water projects (such as those related to drought) with dedicated funding from the Reclamation Fund. In the 115<sup>th</sup> Congress, S. 1556, the Authorized Rural Water Project Completion Act, proposes to direct \$115 million annually from FY2018 to FY2038 (\$2.3 billion total) that otherwise would have been credited to the Reclamation Fund to a set of newly established accounts to fund qualifying BOR rural water projects (\$80 million per year) and water rights settlements (\$35 million per year). These funds would be available for expenditure by the Secretary of the Interior without further appropriation (i.e., mandatory funds).

Congress has previously enacted changes to how the Reclamation Fund may be used in future years. Title X of the Omnibus Public Lands Management Act of 2009 (P.L. 111-11) redirected \$120 million per year of Reclamation Fund receipts for FY2020-FY2034 toward qualifying Indian water rights settlement projects, without further appropriations. (For more information, see CRS Report R44148, *Indian Water Rights Settlements*.)

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