

TESTIMONY OF

Dr. Duane Pool, Natural Resource Economist, Department of Water Resources

Chairman Porter, and members of the House Energy and Natural Resources Committee, I am Duane Pool, Natural Resource Economist for the Department of Water Resources (DWR). I'm here today to provide testimony in opposition to House Bill (HB) 1218, which pertains to increasing the total cost threshold for flood protection and water conveyance projects subject to Economic Analysis (EA) when applying for DWR Cost-Share Program assistance.

For some background regarding the EA process and requirements, in 2017, the 65th Legislative Assembly passed House Bill 1020 – the budget bill for the agency that was then called the State Water Commission. Section 21 said the State Engineer shall develop an economic analysis process for water conveyance and flood-related projects expected to cost more than \$1 million. It also said when the Commission is considering funding for one of the aforementioned types of projects, that the State Engineer would provide the results of an EA for Commission consideration.

After a lengthy public process to establish an EA calculation tool and guidelines, and after beginning to implement statutory EA requirements for water conveyance and flood-related projects with a total cost of at least \$1 million during the 2019-2021 biennium, Water Commission members began to appreciate having the results of EAs in their decision-making related to project reviews.

As we all know, not all projects are created equal. Thus, knowing the state's expected return on these investments, before making a decision to commit tax dollars, is viewed by DWR and Commission members as a good thing. That is, after all, the fundamental purpose of EA – to calculate the ratio of benefits returned to those investing in a project, compared to the overall costs of the project. In short, for every dollar of cost, is there at least one dollar of benefit when looking at projects in their entirety? With that in mind, the Commission began discussing the possibility of reducing the threshold of the total cost to a lower level during the summer of 2019.

At that time, and in cooperation with the Interim Legislative Water Topics Overview Committee, Legislative Council was asked by the Committee Chair to weigh in on the Commission's ability to require EA for projects with a total cost of less than \$1 million. Legislative Council reported back that the Commission does have that authority – so long as the minimum statutory threshold is met. In December 2019, the Water Commission approved \$200,000 as the new total project cost threshold for EA to be conducted. The threshold remains at that level today.

The purpose of HB 1218 is to establish a total cost threshold for flood control and water conveyance projects “*only* for those expected to cost more than five million dollars.” This would mean *only* those projects with a total cost of five million or more could be reviewed with EA, and the Commission's decision to establish a lower threshold (currently at \$200,000), would no longer be an option.

To put this proposal into perspective in terms of projects that have come before the Commission for cost-share consideration, since 2017, 50 projects have been required to conduct EA. Had the EA threshold been set at five million, only 3 of those 50 would have been required to submit the results of an EA.

Again, the very reason the Water Commission has set a lower threshold than what is minimally required in Century Code, is because the members appreciate the best available information in hand when allocating state tax dollars to projects. In a time where competition among projects for finite state resources is only growing, it is more important than ever to ensure state investments are made as thoughtfully as possible.

As the discussions related to this issue are covered over the course of considering HB 1218, you will likely hear a common point that is meant to support this bill. You will hear that state-required EAs are not necessary because local sponsors have voted to assess themselves, which is a demonstration that it is a beneficial project, and their positive vote should count as the economic analysis. First, not all projects get voted on at the local level. Second, a decision to pay for something does not replace a traditional objective analysis of economic efficiency (more benefits than costs). Third, and most importantly, the sponsors approaching the DWR and Commission for cost-share are not paying for the total cost of the project themselves, but are in fact, asking the state to assist with public funds. It is that very reason

that the Legislature back in 2017 established EA requirements – to ensure that when the state is being asked to financially participate, that those state investments were being made thoughtfully, and in a way that provides more consideration to projects that have demonstrated little return on investment compared to their total cost.

You might also hear the EA calculation tool is biased to the detriment of rural projects, and that it does not take into account all conveyance-related benefits, including the capture of higher commodity prices. The largest contributing benefit of the DWR EA tool for rural drainage is the model easily returns positive rates of return when the project in fact brings more acres into production under the designed events. This is the purpose of rural drainage, and the model reflects this goal.

In addition, chasing constantly changing commodity prices requires picking a snapshot in time whether it is over or under projecting future benefits and can lack objectivity. In the tool developed by DWR, we use decades of indexed crop damage payments to estimate the avoided damages as demonstrated in each county by the insurers and reinsurers. These are updated regularly. This avoids the propagation of errors from soils and productivity models and goes directly to the damage claims which are the intent of those models to estimate.

Mr. Chairman, and members of the committee, in the interest of meeting taxpayer expectations that government is being as thoughtful as possible when allocating public funds, the implementation of EA just makes sense. Setting the EA threshold at five million dollars or more will mean that most projects submitted for cost-share will not be allowed to complete EAs. This would be unfortunate. DWR's EA tool is the best option available to ensure that when the state is asked to invest in local projects, investment decisions are supported with the results of objective quantitative analysis. For that reason, we respectfully request that HB 1218 not move forward, and that you vote no on this bill.

Mr. Chairman, and members of the committee, this concludes my testimony in opposition to HB 1218, and I will stand for any questions you might have.