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DICKINSON DAM, NORTH DAKOTA

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HEARING BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESOURCES OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES UNITED STATES SENATE NINETY-FIFTH CONGRESS SECOND SESSION ON S. 817 A BILL TO AUTHORIZE THE SECRETARY OF THE INTERIOR TO DEFER REPAYMENT OF MUNICIPAL AND INDUSTRIAL COSTS OF THE DICKINSON UNIT

FEBRUARY 22, 1978

Publication No. 95-98



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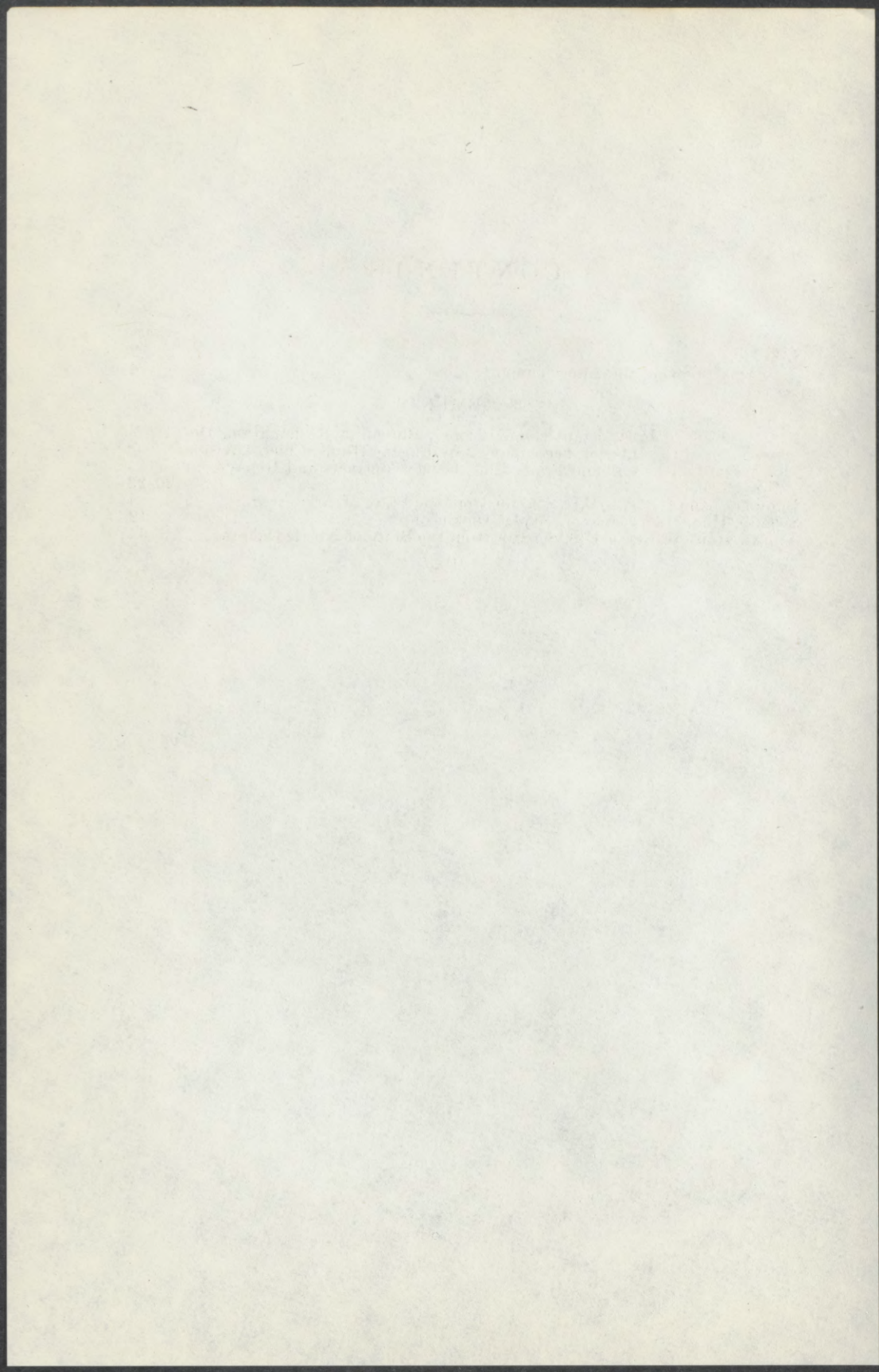
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(III)



DICKINSON DAM, NORTH DAKOTA

WEDNESDAY, FEBRUARY 22, 1978

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC LANDS AND RESOURCES
OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m. in room 3110, Dirksen Office Building, Hon. Dale Bumpers presiding.

Present: Senator Bumpers.

Also present: Russell R. Brown, professional staff member.

OPENING STATEMENT OF HON. DALE BUMPERS, A U.S. SENATOR FROM THE STATE OF ARKANSAS

Senator BUMPERS. The hearing this morning before the Subcommittee on Public Lands and Resources of the Committee on Energy and Natural Resources is for the purpose of taking testimony of S. 817, a bill introduced by Senator Young to authorize the Secretary of the Interior to defer payment on municipal and industrial water supply costs resulting from the modification of Dickinson Dam in North Dakota.

All of you know that during the 94th Congress this committee considered and the Congress approved the legislation which would authorize the Secretary of the Interior to make necessary safety modifications to Dickinson Dam and to also install new gates so as to increase the available water supply.

At that time, the city of Dickinson agreed to repay those costs of the modifications which would be allocated to the increased water supply. The measure before us today will provide the authority for the Secretary of the Interior to defer the payments by the city of Dickinson under an existing contract until repayment for the new work authorized in the 94th Congress has been completed.

Before proceeding with the witnesses, a copy of the bill and related report will be placed in the hearing record at this point.

[The bill and report follows:]

95TH CONGRESS
1ST SESSION

S. 817

IN THE SENATE OF THE UNITED STATES

FEBRUARY 25 (legislative day, FEBRUARY 21), 1977

Mr. Young introduced the following bill; which was read twice and referred to the Committee on Energy and Natural Resources

A BILL

To authorize the Secretary of the Interior to defer repayment of municipal and industrial costs of the Dickinson Unit.

- 1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 That section 202 of the Reclamation Authorization Act of
4 1975 (90 Stat. 205, 206) is amended to read as follows:
5 “SEC. 202. The Secretary is authorized to enter into a
6 contract with the city of Dickinson, North Dakota, to accom-
7 plish the repayment of that portion of the cost of the work
8 authorized herein properly allocable to municipal and indus-
9 trial water supplies. Payment of the existing obligation for
10 reimbursable municipal and industrial costs of the Dickinson
11 Unit may be deferred until repayment for the work author-

1 ized by this title has been completed: *Provided*, That repay-
2 ment of all costs allocable to municipal and industrial water
3 supplies for the Dickinson Unit shall be accomplished in not
4 to exceed twenty years from completion of the construction
5 authorized herein: *Provided further*, That the total cost of the
6 new spillway and related works incurred for the safety of the
7 structure shall be nonreimbursable and nonreturnable.”.



United States Department of the Interior

OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20240

MAR 10 1978

Honorable Henry M. Jackson
Chairman, Committee on
Interior and Insular Affairs
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

This responds to your request for the views of this Department on a bill, S. 817, "To authorize the Secretary of the Interior to defer repayment of municipal and industrial costs of the Dickinson Unit."

We recommend that the bill not be enacted.

The bill would amend section 202 of the Reclamation Authorization Act of 1975 (90 Stat. 205, 206) to authorize the Secretary to execute a contract with the City of Dickinson, North Dakota, to cover repayment of project costs of the Dickinson Unit allocable to municipal and industrial (M&I) water supplies. The bill would authorize the Secretary to defer repayment of the existing obligation of the city for M&I water supplies until repayment for the new work authorized by the 1975 Act has been completed. The bill would require, however, that repayment of all costs allocable to M&I water supplies be completed within 20 years from completion of the new work. The bill would also reaffirm that costs of the new spillway and related works incurred for safety of dams purposes shall be non-reimbursable.

We do not support the bill for the following reasons.

1. A literal interpretation of the bill would require repayment of all costs allocable to M&I water supplies in not more than 20 years. While this provision, taken alone, would appear to be advantageous to the United States, we believe this result was not intended by the drafters of the bill as the resulting repayment burden on the City of Dickinson could be excessive.
2. The repayment provisions of the bill could necessitate developing a new repayment contract to cover existing repayment obligations

according to section 9(c)(1) of the Reclamation Project Act of 1939 (55 Stat. 1193; 43 U.S.C. 485). This would be in conflict with the existing water supply contracts written pursuant to section 9(c)(2) of that Act and could result in a write-off by the Federal Government of a substantial portion (\$500,000 or more) of the unpaid M&I obligation that could otherwise be recovered pursuant to section 9(c)(2).

3. Deferral of the existing obligations is not consistent with usual principles of sound management and is contrary to the Administration's policy.

4. The legislation could have the effect that the local water users would repay only the incremental costs of the unit. This is inconsistent with ordinary repayment principles allowed under existing law and with longstanding Bureau of Reclamation policy, that surplus M&I and power revenues may be used to assist in the repayment of irrigation costs. The bill could establish an undesirable precedent for other units of the Pick-Sloan Missouri Basin Program.

The background leading to S. 817 is as follows.

The Dickinson Unit of the Missouri River Basin Project, now known as the Pick-Sloan Missouri Basin Project, was authorized by the Flood Control Act of December 22, 1944 (P.L. 534, 58 Stat. 887). Construction of the dam and reservoir was begun in March 1949 and was completed in March 1950. The dam and reservoir are operated by the Bureau of Reclamation. Initial water deliveries to the City of Dickinson were made in May 1952.

Original plans were to provide 1,100 acre-feet of water annually to augment the City of Dickinson's well supplies and to furnish irrigation water for about 915 acres of irrigable land adjacent to the reservoir and below the dam. Flood control, fish and wildlife, and recreational benefits were also planned and are being realized.

The City of Dickinson executed a 40-year water service contract with the United States on September 24, 1949. That contract provided for the delivery of up to 1,100 acre-feet annually for M&I use. It was thought that the water supply contracted for would be sufficient until 1990. However, population increases far exceeded estimates, and it soon became apparent that the city would utilize its entire water allocation from the Dickinson Unit by 1964. Accordingly, on May 8, 1962, the city executed a supplemental contract to increase its supply by 900 acre-feet to a total of not to exceed 2,000 acre-feet annually. The city provides necessary water treatment facilities.

The population of the City of Dickinson has continued to grow very rapidly and is currently about 14,000. The main reason is that strippable lignite deposits of about 800 million tons are located within 15 miles of the city.

The Reclamation Authorization Act of 1975 was enacted by Congress on March 11, 1976, to modify the existing dam principally for safety purposes. Following hearings in the 94th Congress on H.R. 8539 and S. 2089, the provisions of those bills were adopted in Title II of the Reclamation Authorization Act of 1975, an omnibus bill covering a number of projects. Title II authorized modification of the spillway and other work on the existing Dickinson Dam for safety purposes but included the addition of bascule gates to make additional M&I water available to the City of Dickinson. The sum of \$4 million was authorized (based on January 1975 price levels) for all of the work. The reimbursable portion of the capital cost was then estimated at around \$700,000 (plus interest during construction).

Section 202 of the 1975 Act authorized the Secretary to enter an amendatory contract with the City of Dickinson to repay the portion of the cost of the new work allocable to M&I water supplies over a period not to exceed 40 years from completion of construction. The Secretary is authorized to enter into a fixed obligation type of contract which would repay the new M&I costs with interest at the rate to be determined "... by the Secretary of the Treasury, as of the beginning of the fiscal year in which construction is initiated, on the basis of the computed average interest rate payable by the Treasury upon its outstanding marketable public obligations, which are neither due nor callable for redemption for fifteen years from date of issue." That rate is 6.063 percent for fiscal year 1978.

Following the enactment of section 202, Reclamation officials initiated negotiations with the city for the repayment of the costs associated with the M&I facilities. Amortization of the current estimated sum of \$1,026,500, which includes estimated interest during construction, can be achieved in 40 years with annual payments of \$68,765. That arrangement would involve a cash flow of \$2,750,600 over the term of the contract, with an interest cost of \$1,724,100 after deduction of the fixed obligation of \$1,026,500. This is, of course, in addition to repayment of the city's existing obligation under existing contracts. Several repayment options are being considered. None of the principal options currently being discussed extend the repayment to 40 years. The payment period being favored is in the range of 20-25 years with overall annual payment, including old and new obligations, of about \$100,000, or a little more.

The city expressed its desire to repay the costs as quickly as possible to minimize its interest costs and so that the city would be free to repay the costs of additional water which may become available from Versippi Dam or another water supply in the future.

The city's repayment proposal included the deferment of installments currently paid under the city's existing contracts, executed September 24, 1949, and on May 8, 1962. These contracts are currently scheduled to mature in 1989. Current repayment has been averaging around \$32,000 in recent years. Each of these contracts was written pursuant to section 9(c)(2) of the Reclamation Project Act of 1939 and are water service type contracts, and the construction components do not reflect a fixed obligation as required by section 9(c)(1). The 1949 contract does not require payment of interest, while the 1962 contract does have an interest component covering interest during construction for the M&I assignment.

These contracts would not achieve full payment of costs allocated to M&I by the time they mature. This matter was recognized during negotiations for the September 1949 contract and resulted in execution of the existing contract so that succeeding contracts could be negotiated pursuant to section 9(c)(2) to provide additional revenues to repay remaining capital costs. Both the 1949 and 1962 contracts were to be renewed in 1990 at rates to be established at the time of renewal. In those contracts, operation and maintenance (O&M) costs were part of the annual installments, deducted prior to capital amortization. The O&M component has increased far more than anticipated and as a consequence, there is a significant lag, greater than originally anticipated, in repaying the construction costs assigned to M&I.

As of June 30, 1976, about \$407,431 have been repaid by the M&I and agricultural water users and \$101,204 from other sources out of the \$1,534,514 reimbursable portion allocated for ultimate repayment. Therefore about \$1 million is outstanding.

The city's proposal includes deferment of its existing water service contracts while repaying the \$1,026,500 cost (capital plus interest during construction) of the bascule gates by a fixed obligation contract. The contract would complete repayment over 15 years with equal annual installments of approximately \$100,000 to cover capital and interest costs, including additional interest payments of about \$500,000 during the 15-year period. Such a contract would also call for additional annual payments of about \$100,000 for 5 more years to pay \$500,000 of the deferred capital costs on the original obligation.

The city's proposal could, however, considering the June 30, 1976, accounts, result in a write-off of about \$525,879 of capital costs

assigned to M&I, or more, depending upon further escalation of O&M costs which are first deducted from the city's annual payments.

We understand that, while it is neither required by the bill nor clearly expressed in the bill, it is the expectation of the city if the bill is passed to renegotiate a contract with the Bureau covering all repayment according to the terms of section 9(c)(1) described above, and to cancel and supersede the existing contractual obligations under section 9(c)(2). This would have the effect, at this advanced stage of the two contracts, of significantly reducing repayment by the city of the existing obligations as outlined above and of reducing the Secretary's flexibility at rate setting that would be provided by the continuation of arrangements under section 9(c)(2). Such a change would not be consistent with Bureau policy and would be to the disadvantage of the United States.

Longstanding Reclamation procedures permit the use of surplus M&I water revenues to assist in the return of reimbursable costs allocated to irrigation that are beyond the irrigators' payment capacity. Chapter 7.2.F. of Reclamation Instructions Volume XV for Project Repayment states that the M&I returns "... above the required construction and operation and maintenance costs will be available for application to other reimbursable project costs and will be employed where necessary to assure payout of the entire project. In a 'basin account' system, these payments benefit the entire project. Therefore, these payments are not available for application to the benefit of particular project units." Based on the foregoing criteria, future M&I rates for the city would need to cover as a minimum the \$1 million of outstanding costs, with the possible addition, along with surplus power revenues, of a portion for irrigation repayment assistance, as may be required for the Pick-Sloan Missouri Basin Project. Our current policy is to review the M&I rates at 5-year intervals and to adjust the rates as appropriate to ensure full recovery of reimbursable capital and O&M costs.

On the other hand, the requirement in S. 817 of "repayment of all costs allocable to municipal and industrial water" in "not to exceed twenty years" from completion of construction, could, if interpreted literally, result in a substantial increase in annual payments by the city, to an amount not anticipated, we believe, by the city or the bill's drafters. As indicated above, present obligations will not achieve full payment of all M&I costs by 1989, but will require further contracts. The requirement of full payment of all costs, old and new, in 20 years could result in charges of at least \$300,000 per year to amortize reimbursable project costs if cost recovery is limited to the Dickinson Unit alone. Annual O&M costs would represent additional water charges.

With respect to the issue of deferral, section 202 of the Reclamation Authorization Act of 1975 did not specifically address the alternative of deferring construction installments required pursuant to the city's existing contracts. The Secretary's authority to defer or otherwise postpone payment of the city's existing Federal contract obligations is limited by the Deferment of Construction Charges Act of September 2, 1959 (73 Stat. 584). Under the conditions of that Act, the Secretary cannot defer payments of an existing construction charge obligation which would lengthen installments beyond a 12 month period without a formal amendatory contract approved by Congress. As an alternative, the city proposed that legislation be enacted.

It is clear that the policy of the 1959 Act is to substantially limit deferrals without Congressional action; the Administration believes deferrals are unsound from the standpoint of financial management. Moreover, S. 817 is not clear as to whether the deferral would begin upon enactment or upon completion of the newly authorized construction. Under ordinary procedures, repayment of the new obligation would not begin until the new gates are installed, and the deferral would commence at that time.

For all of the above reasons, we recommend against enactment of S. 817. If, however, the Congress decides to pass S. 817 or a similar bill, we would consider it extremely important to amend the bill to assure that any deferral of the existing obligation would not commence until assumption of the new obligation by the city, and to clearly allow for renewal of the city's existing obligations according to section 9(c)(2), in order to achieve full pay out of M&I costs, to avoid excessive burdens on the city, and to maintain the Secretary's flexibility at fixing rates and applying payment proceeds. To achieve these purposes, we would recommend that the bill be amended as follows: delete all beginning with "Payment of" on page 1, line 9, through "Provided further," on page 2, line 5, and substitute the following:

"Repayment of all new costs for work authorized by this Title and allocable to municipal and industrial water shall be repaid as a fixed obligation with interest, and construction installments pursuant to existing contracts 179r-1412 dated September 24, 1949, and Supplement No. 1 to Water Service Contract 179r-1412 dated May 8, 1962, may be deferred until the city's new obligation is repaid in full, but such deferral shall not begin until payment of the new obligation starts. The total repayment period for both existing contracts and the new work shall not exceed 20 years from completion of the construction authorized herein. The existing contract 179r-1412 covering 1,100 acre-feet of M&I water service

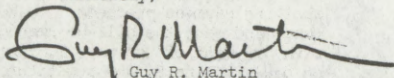
and Supplement No. 1 to Water Service Contract 179r-1412 covering 900 acre-feet of M&I water service shall be renegotiated in accordance with the provisions of section 9(c) (2) of the Reclamation Project Act of 1939 taking into account, among other factors, irrigation-repayment assistance as required for the Pick-Sloan Missouri Basin Program; Provided, " . . .

The total updated estimated cost, based on January 1977 price levels, of the measures authorized by title II of the Reclamation Authorization Act of 1975 is \$4,411,000. Of that amount, \$3,441,000 is considered non-reimbursable because the expenditures will be used for safety improvements. \$1,026,500 of capital costs including interest during construction would be reimbursable with interest at a rate to be determined by the Secretary of the Treasury at the time construction is initiated.

Under existing authority, it is in the best interests of the United States to write a fixed obligation contract covering only the new costs as provided by the existing legislation. Repayment arrangements under the existing contracts would be maintained through 1989. At that time new terms and conditions for renewal would be negotiated. If S. 817 is enacted, an appropriate contract can be negotiated if the bill is modified as suggested above.

The Office of Management and Budget has advised that there is no objection to the presentation of this report from the standpoint of the Administration's program.

Sincerely,



Assistant SECRETARY Guy R. Martin

Senator BUMPERS. Our first witness today is my colleague and good friend, Senator Milton Young from North Dakota. Senator Young, we are delighted to have you here this morning.

**STATEMENT OF HON. MILTON YOUNG, A U.S. SENATOR FROM THE
STATE OF NORTH DAKOTA**

Senator YOUNG. Thank you, Mr. Chairman. I deeply appreciate your arranging this hearing this morning. I introduced this bill last year to defer repayment on municipal and industrial costs of the Dickinson unit of the Bureau of Reclamation project at Dickinson, N. Dak.

With me today is the Honorable Henry Schank, the mayor of Dickinson, N. Dak., who will testify as to the need for this legislation.

Mr. Chairman, the city of Dickinson and I appreciate the favorable action taken by this committee 2 years ago when it approved Senate bill 2089, which has subsequently been enacted into law. That legislation authorized modifications of the Dickinson Dam which has as one of its primary purposes the providing of municipal and industrial water to the city of Dickinson.

At that time, the city was faced with and still faces a real problem of obtaining adequate supplies of water. The latest legislation we enacted would increase the quantity of water available to the city of Dickinson. You will note I said would increase additional water. A problem has arisen which Senate bill 817 is designed to correct.

At the time of the approval of the Senate bill 2089 2 years ago, city officials were under the impression that the repayment plan as contained in the Bureau of Reclamation's feasibility report would be carried out. Generally, this feasibility report provided for the repayment of all costs chargeable to municipal and industrial water suppliers not for more than 20 years from the completion of construction of the added facilities. There would be a deferral of existing obligations until the newly incurred obligations had been paid.

Because the existing obligation is interest free, its deferral until the interest-bearing obligation is repaid would result in a considerable and badly needed savings to the city of Dickinson.

Through an oversight, this was not provided for in earlier legislation. It is this type of financial arrangement which was the basis of the city's determination to proceed with the project 2 years ago.

As I indicated earlier, the city of Dickinson badly needs additional municipal and industrial water. Initial construction funds were appropriated last year for this project, but no funds can be expended until the execution of a repayment contract. A repayment contract cannot be completed until action is taken on this legislation. For this reason, the work has not been yet initiated. It is important, therefore, that this legislation be approved at an early date. A repayment contract based on this legislation I understand has been drafted by the city of Dickinson and the Bureau of Reclamation, and will be promptly executed upon the enactment of this legislation.

My bill, S. 817, provides that the repayment of all costs chargeable to industrial and municipal water supplies shall be completed not to exceed 20 years from the completion of the construction. It may be desirable to extend this time by 5 years to 25 years to allow some

flexibility in negotiating a contract between the Bureau and the city. I would defer to the judgment of the committee and the wishes of the city in this regard.

I do feel, however, it is important that this legislation be approved at an early date so that construction on these improvements can begin during the forthcoming construction season.

Thank you, Mr. Chairman, and now I would like to introduce Mr. Henry Schank, the mayor of the city of Dickinson.

Senator BUMPERS. Mayor Schank, welcome to this committee, and we will be very pleased to hear your testimony.

**STATEMENT OF HON. HENRY SCHANK, MAYOR, CITY OF
DICKINSON, N. DAK.**

Mayor SCHANK. Thank you, Mr. Chairman. Through this statement of testimony, the city of Dickinson, N. Dak., wishes to express its unified support of the referenced legislation which will authorize the Secretary of the Interior to defer payment of a part of the total project costs to supply raw water for municipal and domestic uses for the city of Dickinson.

This legislation would authorize the total repayment of all principal and interest to the U.S. Government within a 20-year period rather than 30 years as shown by the repayment schedules prepared by the Bureau as shown on exhibits B and C¹ attached to this statement for convenient reference.

Also attached is an exhibit A² which is a copy of page 50 of the feasibility report for this project as prepared by the Bureau of Reclamation which was published in April of 1975 showing the proposed repayment schedule as of that time, which included deferred payment of the non-interest-bearing obligation under the old contract.

In adjusting upwards its water rates to provide sufficient revenue for repayment of the new costs, the city relied on that proposed repayment schedule prepared in 1975, which included deferred payment of the old contract. We wish to point out that the suggested repayment schedule prepared in 1975 revealed an anticipated new project cost of \$792,000, whereas the present estimated costs of completing the project as shown in exhibit B will be at least \$1,023,000, for an increase of at least \$231,000.

The raw water supply problems of the city of Dickinson have been previously demonstrated through several prior reports and hearings. However, a brief review of these problems and the solutions devised for them is appropriate at this time.

Pursuant to the legislation authorized in the late 1940's, Dickinson Dam was finally completed in 1952 to provide municipal water for Dickinson. With the advent of energy development commenced by the discovery of oil in southwestern North Dakota in 1952, the amount of water which could be furnished through the existing Dickinson Dam became insufficient. The city has been working closely with the Bureau of Reclamation for approximately 10 years to find a sound solution to the problems and the plan which has been developed includes both the short-range solution and a later long-range solution.

To supply adequate water through at least 1985, Bascule gates will be installed on the Dickinson Dam to increase its water storage capac-

¹ See pages 18 and 19.

² See page 17.

ity. The total cost of that project will be at least \$1,023,000, which the city of Dickinson is prepared to repay, including appropriate interest.

However, the repayment contract for the initial construction of the dam and a subsequent supplemental contract necessitated by a substantial repay project have not been fully repaid and are not scheduled for final payment until 1989. The repayment contract for the initial construction costs pursuant to legislation did not bear interest. Through the changes in Federal policy during the past three decades, the new project must necessarily bear interest. Unfortunately, the city of Dickinson simply does not have the capacity to continue repayment on the prior contract and add interest to it and meet principal and interest obligations for the new contract.

By deferring payment on the old contract until the new obligations are repaid, with interest, in approximately 15 years as shown on exhibit B, the city will then be able to repay the old contract within 5 years thereafter. Prior to the end of the 20-year repayment period, the city will incur new, substantial obligations to finance the long-range solution, which will be obviously greater than the combined present repayment schedule.

The residents of Dickinson currently pay the highest consumer water rate in the State of North Dakota. That high rate is necessitated to meet high contractual commitments for a raw water supply due to Dickinson having been required to pay 69 percent of the total original construction cost of the Dickinson Dam, which high share is presently repaid through semi-annual payments to the Bureau of Reclamation to continue to the year 1989, with substantial increases in the annual amount after each 5-year period.

In addition to the original contract, we must meet separate payments under a supplemental repair contract and bear operational and maintenance costs for the Dickinson unit. Added to the contractual commitments for raw water are the unusually high treatment costs because of the poor quality of water gathered from the drainage basin resulting in bentonite deposits.

Passage of the reference legislation will be of benefit not only to the city of Dickinson, but we feel it is in the best interests of the United States of America for the following reasons: The proposed project has already been approved as a sound one to solve Dickinson's short-range raw water supply, and will have no adverse environmental effects, but instead will provide positive environmental results, including a broader habitat for wildlife growth and increased water area for human recreation as bonuses for the vital human needs which it will serve.

As demonstrated by the comparative repayment schedules shown in exhibits B and C attached hereto, the United States will actually realize full reimbursement of all principal and interest within a 20-year period rather than a 30-year period, and at the same time, enable Dickinson to reach the financial capacity to solve its long-range raw water supply problems near the end of the 20-year period.

The residents of Dickinson have relied on the suggested repayment schedules proposed by the Bureau of Reclamation during the past several years when this project was under study, as shown by exhibit

A hereto attached, and the residents of Dickinson should not now be disappointed by the U.S. Government by failure to pass this legislation. The pleasant and mutually beneficial relationship we have enjoyed in the past should be encouraged for the future.

The significant contribution the city of Dickinson is making to the citizens of the United States through utilization of energy resources in our area, including the production of oil, gas, and coal, and the generation of electricity, is one of the primary reasons that Dickinson's water supply has become inadequate, and passage of this legislation would merely recognize that contribution.

After a decade of study, the project has been finally approved as a sound one indeed, and is ready for construction. This legislation is really only a final cleanup bill to allow the repayment contracts to be signed.

A personal note, I would like to add that the city of Dickinson has enjoyed a very warm and personal relationship with the Bureau of Reclamation, the U.S. Senate committees, and the House of Representatives committees, and we hope that this will continue in the future.

Thank you very much, Mr. Chairman.

Senator BUMPERS. Mayor Schank, thank you for a very clear and concise statement. Let me see if we understand this correctly now. How much are you presently paying on the original indebtedness annually?

Mayor SCHANK. It is a stepped-up proposal. I think last year we paid about \$35,000 to \$36,000 to the Bureau of Reclamation.

Senator BUMPERS. Total?

Mayor SCHANK. Total, yes.

Senator BUMPERS. Wait just a minute.

Mayor SCHANK. The reason we paid more is because we have been purchasing some additional water from the Bureau when it is available.

Senator BUMPERS. Exhibit A here, exhibit C, I'm sorry, is that the present repayment schedule, \$35,000 a year?

Mayor SCHANK. No, sir. This would be the proposed new repayment schedule for a 30-year period for the cost of raising the present dam up the 3½ feet.

Senator BUMPERS. The Bureau of Reclamation was not proposing to combine the unpaid balance of your present obligation with the obligation you would incur under the new construction, were they, and charging interest on both of them?

Mayor SCHANK. I believe they were, sir.

Senator BUMPERS. Let me ask staff. Is that correct?

Mr. BROWN. No, sir.

Senator BUMPERS. You would have to make two payments; one would be interest bearing and one would not, and under the schedule as I see it here, you are presently paying \$35,000 a year. Under the combined payments, you would be paying, well, \$85,000 a year?

Mayor SCHANK. We would pay, on the exhibit C, we would pay \$35,000 every 6 months.

Senator BUMPERS. Which is your present obligation, and which one of these exhibits covers the new obligation?

Mayor SCHANK. Exhibit C, which would be a \$35,000 payment semiannually.

Senator BUMPERS. I'm sorry. Yes; at an interest rate of 5.68 something.

Mayor SCHANK. That has increased with our last meeting. It is in excess of 6 percent.

Senator BUMPERS. All right. You are presently paying how much on an annual basis?

Mayor SCHANK. Approximately \$35,000, and this is a graduated repayment schedule.

Senator BUMPERS. It increases every 5 years?

Mayor SCHANK. Yes, sir.

Senator BUMPERS. So you wind up paying?

Mayor SCHANK. In excess of \$100,000.

Senator BUMPERS. Yes. Dickinson just can't hack it, can they?

Mayor SCHANK. No, sir.

Senator BUMPERS. How big is Dickinson?

Mayor SCHANK. Approximately 14,000 population.

Senator BUMPERS. Annual water revenues, what were your revenues in 1977?

Mayor SCHANK. About \$328,000.

Senator BUMPERS. And were you able to make that payment last year?

Mayor SCHANK. Yes, sir.

Senator BUMPERS. How long have you been paying on this, since—

Mayor SCHANK. 1952.

Senator BUMPERS. It was originally a 30-year payout, is that correct?

Mayor SCHANK. No. The contract matures in 1989. I think it was a 40-year contract. I think the contract was signed in 1949 before the construction of the dam.

Senator BUMPERS. What you are proposing now is to defer payment of the non-interest-bearing and original obligation, start paying on the interest-bearing obligation, which is the new construction, and immediately upon completion of the work, and defer payment on the noninterest bearing part until after that? Do you propose to pay the new obligation off in 15 years and the remainder in 5 succeeding years?

Mayor SCHANK. Yes, sir.

Senator BUMPERS. Actually it is a net for the Government because it was not anticipated to be paid in that short period, is that correct?

Mayor SCHANK. Yes, sir. This is our opinion, that it would be to the advantage of the Government to pass this bill because we would—and it would also help the city of Dickinson because we would be able to repay our obligations in full in 20 years instead of 30 as proposed, and yet it would be a savings of not a lot of dollars, but some dollars to the city of Dickinson, but the Government would get its principal repaid 10 years sooner.

Senator BUMPERS. So the only conceivable net loss to the Government is the interest it might earn on the noninterest part that you are not paying? In other words, if you were paying the Government the noninterest money, according to the original schedule, if it were an arms-length transaction between two individuals, the individual would be losing whatever income he might get from those payments as they came in?

Mayor SCHANK. This is correct.

Senator BUMPERS. It doesn't seem like a very outrageous request to me. How soon would this construction begin if this legislation is passed?

Let me ask you a preceding question: Is construction simply being held up because Dickinson is not in a position to provide the assurances that it can repay the costs according to the present schedules?

Mayor SCHANK. It may be to a certain extent because in our last meeting with the Bureau of Reclamation, we asked for a little more time to discuss this with Senator Young and try to get this bill into committee hearing, and so we have been stalling a little bit on the city's part, on the construction, even though construction is scheduled. The bids are scheduled to be let in the fall of 1978, with construction to begin in the spring of 1979.

Senator BUMPERS. How much raw water will be added to the flood pool and impoundments with this new construction?

Mayor SCHANK. Approximately 700 acre-feet of what we call firm water supply.

Senator BUMPERS. How much do you have now?

Mayor SCHANK. We have about 1,600 acre-feet firm. However, we are able to purchase additional water.

Senator BUMPERS. That doesn't sound like very much water for a city of 14,000.

Mayor SCHANK. We have been using in excess of that. However, we have had sufficient rainfall so that we have been able to purchase additional water.

Senator BUMPERS. You are saying 1,600 acre-feet?

Mayor SCHANK. Yes, sir.

Senator BUMPERS. That still doesn't sound like much water to me. In any event, you are going to increase that by 700 acre feet?

Mayor SCHANK. Yes, sir.

Senator YOUNG. If I may add a word, the city of Dickinson has sought desperately to get other sources of water. One thing that the Mayor didn't mention, this water has a lot of iron, so it is very costly to prepare for drinking purposes.

Senator BUMPERS. And you actually have the highest rates in North Dakota?

Mayor SCHANK. We do, and they will continue to increase.

Senator BUMPERS. Senator Young and Mayor Schank, thank you both very much for coming this morning, and you have both been very fine, presented a clear and concise statement, and the committee will probably have this on the markup schedule in the next markup session.

Let me ask you, is there a companion bill in the House?

Mayor SCHANK. Not yet; I will be meeting with Congressman Andrews this morning to discuss a companion bill for the House.

Senator BUMPERS. Thank you very much.

[The exhibits to Mayor Schank's statement follow:]

Exhibit A

City of Dickinson
Repayment Schedule

Year	Payment	Increased Conservation Space			Existing Obligation	
		Interest @ 5.68 1/2%	Principal	Balance	Payment	Balance
1	\$50,000		\$50,000	\$1,021,000		\$463,000
		\$27,648	22,352	973,000		
2		27,013	22,987	950,648		
		26,359	23,641	927,661		
3		25,688	24,312	904,020		
		24,997	25,003	879,708		
4		24,286	25,714	854,705		
		23,556	26,444	828,991		
5		22,804	27,196	802,547		
		22,032	27,968	775,351		
6		21,737	28,763	747,383		
		20,420	29,580	718,620		
7		19,579	30,421	689,040		
		18,715	31,285	658,619		
8		17,826	32,174	627,334		
		16,911	33,089	595,160		
9		15,971	34,029	562,071		
		15,004	34,996	528,042		
10		14,010	35,990	493,046		
		12,987	37,013	457,056		
11		11,936	38,064	420,043		
		10,854	39,146	381,979		
12		9,742	40,258	342,833		
		8,598	41,402	302,575		
13		7,421	42,579	261,173		
		6,211	43,789	218,594		
14		4,967	45,033	174,805		
		3,687	46,313	129,772		
15	50,000	2,371	47,629	83,459		
	36,848	1,018	35,830	35,830		
16					13,152	463,000
					50,000	449,848
17						399,848
						349,848
18						299,848
						249,848
19						199,848
						149,848
20						99,848
					50,000	49,848
					49,848	

1/ Fiscal year 1977 rate -- rate in final schedule will be the rate in effect during the year construction begins.

2/ Estimate of remaining obligation for existing municipal and industrial water cost allocation.

Exhibit A

City of Dickinson
Repayment Schedule

Increased Conservation Space

Year	Payment	Interest @ 5.68 1/2%	Principal	Balance
1	\$35,000	\$ 0	\$35,000	\$1,021,000
		28,074	6,926	988,000
2		27,877	7,123	981,000
		27,675	7,325	971,900
3		27,467	7,533	960,500
		27,252	7,748	959,000
4		27,032	7,968	951,300
		26,806	8,194	943,400
5		26,573	8,427	935,100
		26,334	8,666	926,400
6		26,087	8,911	918,000
		25,834	9,166	909,100
7		25,574	9,426	900,000
		25,306	9,694	890,500
8		25,031	9,969	880,800
		24,747	10,253	870,800
9		24,456	10,544	860,100
		24,156	10,844	849,200
10		23,848	11,152	838,100
		23,531	11,469	826,800
11		23,205	11,795	815,200
		22,870	12,130	803,400
12		22,526	12,474	791,200
		22,171	12,829	778,700
13		21,807	13,193	765,900
		21,432	13,568	752,800
14		21,046	13,954	739,400
		20,650	14,350	725,700
15		20,242	14,758	711,700
		19,823	15,177	697,400
16		19,391	15,609	682,800
		18,948	16,052	667,900
17		18,492	16,503	652,700
		18,023	16,977	637,200
18		17,540	17,460	621,400
		17,044	17,956	605,200
19		16,534	18,466	588,700
		16,009	18,991	571,900
20		15,469	19,531	554,800
		14,915	20,085	537,400
21		14,344	20,656	519,700
		13,757	21,243	501,700
22		13,153	21,847	483,400
		12,532	22,468	464,800
23		11,894	23,106	445,900
		11,237	23,763	426,700
24		10,562	24,438	407,200
		9,868	25,132	387,400
25		9,154	25,846	367,200
		8,419	26,581	346,700
26		7,664	27,336	325,900
		6,887	28,113	304,800
27		6,088	28,912	283,400
		5,267	29,733	261,700
28		4,422	30,578	239,700
		3,553	31,447	217,900
29		2,660	32,340	195,800
	35,000	1,741	33,259	172,300
30	28,795	796	27,999	144,300

1/ Fiscal year 1977 rate -- rate in final schedule will be the rate in effect during the year construction begins.

Senator BUMPERS. Our next witness is Mr. Clifford I. Barrett, Assistant Commissioner of the Bureau of Reclamation.

Mr. BARRETT. I have with me this morning two members of my staff, Mr. Eugene Hinds, who is the Chief of our Division of Water and Land and Mr. Frank Ellis, the Chief of the Contracts Branch in that division.

**STATEMENT OF CLIFFORD I. BARRETT, ASSISTANT COMMISSIONER,
BUREAU OF RECLAMATION, DEPARTMENT OF THE INTERIOR,
ACCOMPANIED BY EUGENE HINDS, CHIEF, DIVISION OF WATER
AND LAND, AND FRANK ELLIS, CHIEF, CONTRACTS AND REPAY-
MENT BRANCH**

Mr. BARRETT. It is a pleasure for us to be at this hearing this morning to present the administration's views and position on S. 817.

The bill as written would amend section 202 of the Reclamation Act of 1975 to, one, authorize the Secretary to execute an amendatory repayment contract with the city of Dickinson, N. Dak., to cover repayment of the costs allocable to municipal and industrial (M. & I.) water supplies as a part of the safety of dams program for the existing Dickinson Dam on the Heart River in North Dakota; two, defer repayment of the existing contractual obligations until repayment for the work authorized by the previous bill has been completed; three, require repayment of all costs allocable to M. & I. water supplies in not more than 20 years from the completion of construction, and four, make the total cost of the new spillway and related works incurred for the safety of the structure nonreimbursable.

At this point I would like to interject, I have a draft written statement, but I would like to summarize it for you briefly.

Senator BUMPERS. I wish you would. We have got a rollcall coming up here.

Mr. BARRETT. One of the problems I think we have with this bill, Senator, is in the way it is drafted. It is subject to a number of interpretations, and I think you will find that reflected in our comments.

A literal interpretation of the bill would require the city to repay all costs allocable to M. & I. supplies in not more than 20 years. This would appear to be advantageous to the United States. However, it would require some very large balloon payments in the last 4 or 5 years of that 20-year period.

We do not recommend enactment of the bill for a number of reasons. The probable intent of the bill as described by the mayor is to defer payment of the current obligation, most or which is interest-free while they effect repayment of the new obligation which does bear interest and at a higher rate of interest. The administration would oppose that proposition on the basis that deferral of existing contract obligations will not be in the best interests of the United States.

Senator BUMPERS. Because it loses the use of the money?

Mr. BARRETT. Yes, sir. Another reason is that we think the bill needs clarification. We feel that Congress should identify precisely the costs for M. & I. repayment rather than leaving them open to negotiation. There is a total project cost of \$1,753,745 before we do the safety of dams work, of which \$178,398 is nonreimbursable for flood control and fish and wildlife purposes. As of June 30, 1976,

\$508,635 has been repaid. Thus, \$1,025,879 must be returned to the Treasury or otherwise accounted for. After the deduction of \$40,833 which has been considered nonreimbursable for M. & I. purposes.

Developing a repayment contract pursuant to section 9(c)(1) of the 1939 Reclamation Project Act as proposed in the bill, is in conflict with the existing water supply contracts written pursuant to section 9(c)(2) of that act. This could result in a writeoff of the unpaid M. & I. obligation unless the bill is clarified in this respect.

The legislation would also establish a precedent for other units of the Pick-Sloan Missouri Basin program. The mayor covered a lot of the background of this bill and their existing contracts, so I would propose to skip that part of my written statement.

Following the enactment of the Reclamation Act of 1975 which authorizes the safety dams program and the installation of the Bascule gates for M. & I. purposes, pursuant to section 202 of that act, Reclamation officials initiated negotiations with the city for repayment of the costs associated with the M. & I. facilities. Amortization of the current estimated cost for the M. & I. portion is \$1,026,000. Amortization would require payment at \$68,756 every year over 40 years, including interest. Interest is at the rate of 6.063 percent in fiscal year 1978.

During these negotiations, the city officials expressed a desire to repay the capital costs as quickly as possible to minimize this interest cost and be free to repay the anticipated costs of an additional water supply, which long-term projections indicate will be necessary to meet the city's future growth needs.

The city's repayment proposal, which we assume is the intent of the bill, included deferment of its existing water service-type contracts executed in 1949 and 1962, while repaying the cost of the Bascule gates by a fixed obligation contract. That contract would complete repayment over 16 years with equal annual installments of approximately \$100,000.

Section 202 of the Reclamation Authorization Act of 1975 did not specifically address the alternative of deferring the construction installments required pursuant to the city's existing contracts. As a consequence, the Secretary's authority to defer or otherwise postpone payment of the city's existing Federal contract obligations is limited by the Deferment of Construction Charges Act of September 2, 1959.

Under the conditions of that act, the Secretary cannot defer payments of an existing construction charge obligation which would lengthen the installments beyond a 12-month period without a formal amendatory contract approved by Congress.

As an alternative, to that, the city proposed that legislation be enacted. Payments under the existing contracts of 1949 and 1962 will not be sufficient to fully repay the total M. & I. allocation when the contracts expire in 1989. This matter was recognized during the negotiations for the September 1949 contract, and resulted in the execution of the existing contracts so that succeeding contract negotiations pursuant to the section 9(c)(2) of the Reclamation Project Act of 1939 could provide additional revenues to repay the remaining capital costs.

Also in the existing contracts, operation and maintenance (O. & M.) costs are part of the annual installments. The O. & M. cost component has been greater than those anticipated in 1962, and as a consequence, there is a significant lag in repaying the construction costs assigned to M. & I.

As of June 30, 1976, about \$407,431 had been repaid by the M. & I. and agricultural water users, and \$101,204 from other sources out of the \$1,534,514 reimbursable costs allocated for repayment. The proposed contract, as desired by the city, would defer about \$500,000 under the existing contracts. Considering the June 30, 1976, accounts, this would result in a writeoff of about \$525,000 of capital costs assigned to M. & I.

Total project costs to date are \$1,753,745. Of that total, \$160,398, \$18,000, and \$40,833 are considered nonreimbursable for fish and wildlife, flood control, and M. & I., respectively. The remaining \$1½ million must be repaid by water users or from surplus power revenues of the Pick-Sloan Missouri Basin program.

Water service contract and other revenues through June 30, 1976, total about \$508,000. Therefore, about \$1 million is outstanding. A determination would need to be made under the proposed bill as to how much of those costs will be allocated to M. & I.

Longstanding Reclamation procedures permit the use of surplus M. & I. water revenues to assist in the return of reimbursable costs allocated to irrigation which is beyond the irrigators' repayment capacity. Based on this criteria—

Senators BUMPERS. I don't want to ask you to wait until I return. I would like to just ask you one question, and I might submit three or four questions to you in writing.

No. 1, do you think the city of Dickinson could combine the new cost and the old costs and pay, say, some lower rate of interest than they are presently paying on the total amount, or would that run their payments higher than they do pay?

Mr. BARRETT. They could interpret that better than I could. I am sure the interest rate is not adjustable.

Senator BUMPERS. Do you have any discretion in the interest rate?

Mr. BARRETT. No, sir, that is set for us.

Senator BUMPERS. My problem is I would like to help the city. I understand the Government's position, and it is a very legitimate one; it is a valid one.

Mr. BARRETT. Could I make a suggestion? As I said before, I think many of the problems we are having with this bill derive from the way it is drafted, and I think we could work with the committee staff in working out some alternative language which would smooth out some of those problems. I think the administration would have to maintain its position of being against a deferral just on principles and policy, and the precedent it sets.

However, if the committee is intent on passing a bill of this nature, we would be pleased to work with them in working up some language.

Senator BUMPERS. I wouldn't say the committee is intent on it. It is sort of the committee's desire to help the city if we can and work out the differences and possibly at a minimum loss or maybe no loss to the United States, and I will ask staff to visit with you about that possibility and about redrafting of the bill. I probably would like to visit with you in my office some time.

Mr. BARRETT. Thank you, sir.

Senator BUMPERS. Thank you very much for coming over. Thank you very much.

[The prepared statement of Mr. Barrett follows:]

STATEMENT OF CLIFFORD I. BARRETT, ASSISTANT COMMISSIONER, BUREAU OF RECLAMATION, DEPARTMENT OF THE INTERIOR

Mr. Chairman and members of the subcommittee, we offer the following testimony with respect to the proposed bill S. 817. The bill written as would amend amend section 202 of the Reclamation Act of 1975 to:

(1) Authorize the Secretary to execute an amendatory repayment contract with the City of Dickinson, North Dakota, to cover repayment of the costs allocable to municipal and industrial (M&I) water supplies as a part of the safety of dams program for the existing Dickinson Dam on the Heart River in North Dakota;

(2) Defer repayment of the existing contractual obligations until repayment for the work authorized by the previous bill has been completed;

(3) Require repayment of all costs allocable to M&I water supplies in not more than 20 years from the completion of construction; and

(4) Make the total cost of the new spillway and related works incurred for the safety of the structure nonreimbursable.

A literal interpretation of the bill's requirement to repay all costs allocable to M&I water supplies in not more than 20 years would appear to be advantageous to the United States. However, we do not recommend its enactment for the following reasons:

(1) Deferral of the existing contract obligations would not be in the best interests of the United States;

(2) The Congress should identify precisely the costs for M&I repayment rather than leaving them open to negotiation; only \$178,398 of the \$1,753,745 investment are nonreimbursable. As of June 30, 1976, only \$508,635 has been repaid. Thus, \$1,066,712 must be returned to the Treasury or otherwise accounted for;

(3) Developing a repayment contract pursuant to section 9(c)(1) of 1939 Reclamation Project Act is in conflict with the existing water supply contracts written pursuant to section 9(c)(2) of that Act. This could result in a write off of the unpaid M&I obligation unless the bill is clarified in this respect;

(4) The legislation would establish a precedent for other units of the Pick-Sloan Missouri Basin Program. In effect, it requires the local water users to repay only the incremental costs of a given unit. It is in conflict with Congressional intent and longstanding Reclamation Policy that surplus M&I and power revenues be used to assist in the repayment of irrigation costs.

The background leading to S. 817 is as follows:

The Dickinson Unit of the Missouri River Basin Project, now known as the Pick-Sloan Missouri Basin Project, was authorized by the Flood Control Act of December 22, 1944 (P.L. 534, 78th Congress, 2d Session). Construction of the dam and reservoir was begun in March 1949 and was completed in March 1950. The dam and reservoir are operated by the Bureau of Reclamation. Initial water deliveries to the city of Dickinson were made in May 1952.

Original plans were to provide 1,100 acre-feet of water annually to augment the city of Dickinson's well supplies and to furnish irrigation water for about 915 acres of irrigable land adjacent to the reservoir and below the dam. Flood control, fish and wildlife, and recreational benefits were also planned for and are being realized.

The city of Dickinson executed a 40-year contract with the United States on September 24, 1949. That contract provided for the delivery of up to 1,100 acre-feet annually for M&I use. It was thought that the city's 1946 population of 6,200 would increase to 7,500 by about 1990, and that the water supply contracted for would be sufficient until that population had been reached. However, population increases in recent years have far exceeded estimates, and it soon became apparent that the city would utilize its entire water allocation from the Dickinson Unit by 1964. Anticipating the need for additional water, the city requested that its contract delivery commitment be increased to 2,000 acre-feet annually. It was possible to comply with this request as irrigation development had not proceeded as rapidly as had been planned, and only 400 acres were irrigated. Accordingly, on May 8, 1962, the city executed a supplemental contract to increase its supply by 900 acre-feet to a total of not to exceed 2,000 acre-feet annually. The city provides necessary water treatment facilities.

The population of the city of Dickinson has continued to grow very rapidly and is currently about 14,000. The main reason is that strippable lignite deposits of about 800 million tons are located within 15 miles of the city.

The Reclamation Act of 1975 was enacted by Congress on March 11, 1976, to modify the existing dam because of safety hazards. In addition, the existing bill authorizes the Secretary to contract with the city for the cost of that work allocable to M&I water supplies for a period not to exceed 40 years. Dickinson Dam modifications include protection from flood occurrences currently estimated to be larger than the existing spillway capacity. The city expressed its desire to include Bascule gates to allow additional control for M&I water if such facilities would meet the necessary flood control measures.

Following the enactment of the Reclamation Act of 1975, pursuant to section 202, Reclamation officials initiated negotiations with the city for repayment of the costs associated with the M&I facilities. Amortization of the current estimated \$1,026,500 which includes estimated interest during construction, is \$68,756 per annum over 40 years. That arrangement would involve a cash flow of about \$2,750,000 with an interest payment of about \$1,700,000. Interest is determined at the prevailing Treasury rate of 6.063 percent for fiscal year 1978.

During negotiations, city officials expressed a desire to repay the costs as quickly as possible to minimize its interest costs and be free to repay the anticipated costs of an additional water supply which long-term projections indicate will be necessary to meet the city's future growth needs.

The city's repayment proposal includes deferment of its existing water service type contractual obligations executed on September 24, 1949, and May 8, 1962, while repaying the cost of the Bascule gates by a fixed obligation contract. The contract would complete repayment over 16 years with equal annual installments of approximately \$100,000. Such a contract would involve a cash flow of about \$2,000,000 over 20 years including \$500,000 of deferred capital costs for M&I purposes with an interest payment of about \$500,000 during the 16-year period.

Section 202 of the Reclamation Authorization Act of 1975 did not specifically address the alternative of deferring construction installments required pursuant to the city's existing contracts. As a consequence, the Secretary's authority to defer or otherwise postpone payment of the city's existing Federal contract obligations is limited by the Deferment of Construction Charges Act of September 2, 1959 (73 Stat. 584). Under the conditions of that act, the Secretary cannot defer payments of an existing construction charge obligation which would lengthen installments beyond a 12 month period without a formal amendatory contract approved by Congress. As an alternative, the city proposed that legislation be enacted. Payments under the existing September 24, 1949, and May 8, 1962, contracts will not be sufficient to fully repay the total M&I allocation when the contracts expire in 1989. This matter was recognized during negotiations for the September 1949 contract and resulted in execution of the existing contract so that succeeding contract negotiations pursuant to section 9(c)(2) of the Reclamation Project Act of 1939 could provide the additional revenues to repay the remaining capital costs. In that contract, operation and maintenance (O&M) costs were part of the annual installments. The O&M component has been greater than those anticipated in 1962 and as a consequence, there is a significant lag in repaying the construction costs assigned to M&I. As of June 30, 1976, about \$407,431 have been repaid by the M&I and agricultural water users and \$101,204 from other sources out of the \$1,534,514 reimbursable portion allocated for ultimate repayment. Thus, the proposed contract desired by the city would defer \$500,000 due under the existing contracts. Considering the June 30, 1976, accounts, this would result in a write off of about \$525,879, of capital costs assigned to M&I depending upon further escalation of O&M costs which are first deducted from the city's annual payments.

We do not have a precise accounting of revenues received and capital accounts credited through calendar year 1977. Nevertheless, the 1949 contract was premised on a revenue flow that would yield \$950,000 of which \$120,000 or \$2.73 per acre-foot per year would be required to pay annual O&M costs and \$830,000 would be credited toward amortization of capital costs. It was understood at the time of contract execution that a succeeding contract would be required after 1989 to fully amortize the costs assigned to M&I. Under the 1949 contract full delivery of the 1,100 acre-feet would result in a per acre-foot water charge that ranged from about \$14 during the first 5 years to about \$30 during the last 5 years of the contract. The highest rate during the last 10 years of the contract is less than 10 cents per thousand gallons of untreated water.

The 1962 contract supplement provided additional payments of \$17.50 per acre-foot for the portion of the additional 900 acre-feet water supply actually

utilized. That rate also includes an O&M component which is deducted prior to capital cost amortization. Each of the contracts were to be renewed in 1990 at rates to be established at the time of renewal.

Total project costs to date are \$1,753,745. Of that total \$160,389 and \$18,000 are considered nonreimbursable for fish and wildlife and flood control, respectively. The remaining \$1.5 million must be repaid by the water users or from surplus power revenues of the Pick-Sloan Missouri Basin Program. Water service contract and other revenues through June 30, 1976, total \$508,635. Therefore, about \$1 million is outstanding. A determination would need to be made under the proposed bill how much of those costs would be allocable to M&I.

Longstanding Reclamation procedures permit the use of surplus M&I water revenues to assist in the return of reimbursable costs allocated to irrigation that are beyond the irrigators' payment capacity. Chapter 7.2.F. of Reclamation Instructions Volume XV for Project Repayment states that the M&I returns. "... above the required construction and operation and maintenance costs will be available for application to other reimbursable project costs and will be employed where necessary to assure payout of the entire project. In a 'basin account' system, these payments benefit the entire project. Therefore, these payments are not available for application to the benefit of particular project units." Based on the foregoing criteria, future M&I rates for the city would need to reflect as a minimum the \$1 million of outstanding costs plus a share along with surplus power revenues for irrigation repayment assistance as may be required for the Pick-Sloan Missouri Basin Program. Our current policy is to review the M&I rates at 5-year intervals and to adjust the rates as appropriate to ensure full recovery of reimbursable capital and O&M costs.

In view of that policy, we cannot support the fixed obligation repayment of both the new and existing costs as contemplated by the proposed bill. It would result in charges of at least \$300,000 per year to amortize the \$1.5 million of project costs that are outstanding if cost recovery is limited to the Dickinson Unit alone. Annual O&M costs would represent additional water charges. If the city elects to exclude itself from the Pick-Sloan Missouri Basin Program, we can see no rationale to support repayment assistance from surplus power revenues.

If the subcommittee insists on enactment of the proposed bill, we believe the following provisions must be included to accommodate the integrity of the Reclamation program in the Missouri River Basin.

We recommend that the bill be clarified to assure that the deferral of the existing obligation would not commence until assumption of the new obligation by the city. Under ordinary procedures, repayment of the new obligation would not begin until the new gates are installed. While repayment of the new and existing contract obligations would be accelerated by a repayment contract written pursuant to the bill, full repayment likely could not be achieved within the 20-year period without burdensome payments to the water users. Therefore, we further recommend that the bill be amended as follows: Delete the provision beginning "Payment of the," on page 1, line 9, through "completed," on page 2, line 1, and substitute the following: "Repayment of all new costs allocable to municipal and industrial water shall be repaid as a fixed obligation with interest and that construction installments pursuant to existing contracts 179r-1412 dated September 24, 1949, and Supplement No. 1 to Water Service Contract 179r-1412 dated May 8, 1962, may be deferred until the city's new obligation is repaid in full, but such deferral shall not begin until payment of the new obligation starts and the total repayment period shall not exceed 20 years from completion of the construction authorized herein. The existing contract 179r-1412 covering, 1,100 acre-feet of M&I water service and Supplement No. 1 to Water Service Contract 179r-1412 covering 900 acre-feet of M&I water service shall be renegotiated in accordance with the provisions of section 9(c)(2) of the Reclamation Project Act of 1939 taking into account, among other factors, irrigation-repayment assistance as required for the Pick-Sloan Missouri Basin Program."

The total estimate cost, based on January 1977 price levels, of the measures authorized by Title II of the Reclamation Authorization Act of 1975 is \$4,411,000. Of that amount, \$3,441,000 is considered nonreimbursable because the expenditures will be used for safety improvements. The remaining \$1,026,500 of capital costs including interest during construction would be reimbursable with interest at a rate to be determined by the Secretary of the Treasury at the time construction is initiated.

In the interest of the Safety of Dams Program, the Bureau of Reclamation should move forward as quickly as possible with its proposed construction program for modification of the spillway at Dickinson Dam which includes the installation of Boscule gates essential to the city's M&I needs. If the bill is modified as suggested above prior to its enactment, an appropriate contract may be negotiated. Otherwise, it is in the best interests of the United States to write a fixed obligation contract covering only the new costs as provided by the existing legislation. Repayment arrangements under the existing contracts would be maintained through 1989. At that time new terms and conditions for renewal would be negotiated.

Thank you for the opportunity to appear before this subcommittee. We will be happy to respond now to questions that you may have.

Senator BUMPERS. The hearing is adjourned.

[Whereupon, at 10:45 a.m., the hearing was adjourned.]



