RURAL ELECTRIC COOPERATIVES AND DISASTER LOANS

HEARING

BEFORE THE

SUBCOMMITTEE ON AGRICULTURAL CREDIT AND RURAL ELECTRIFICATION

OF THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

S. 1729

A BILL TO AMEND THE RURAL ELECTRIFICATION ACT OF 1936 IN ORDER TO PERMIT THE USE OF THE RURAL ELECTRIFICATION AND TELEPHONE REVOLVING FUND TO REPAIR AND REPLACE CERTAIN ELECTRIC POWER AND TELEPHONE LINES AND EQUIPMENT DAMAGED OR DESTROYED IN RURAL AREAS BY NATURAL DISASTERS

JULY 21, 1977

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RURAL ELECTRIC COOPERATIVES AND DISASTER LOANS

THURSDAY, JULY 21, 1977

U.S. SENATE,
SUBCOMMITTEE ON AGRICULTURAL CREDIT
AND RURAL ELECTRIFICATION OF THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:07 a.m., in room 324, Russell Senate Office Building, Hon. James B. Allen (chairman of the subcommittee) presiding.

Present: Senators Allen, Curtis, and Dole.

Also present: Senator Zorinsky.

STATEMENT OF HON. JAMES B. ALLEN, A U.S. SENATOR FROM ALABAMA

Senator ALLEN. The hearing will please come to order.

Today's hearing will direct itself to S.1729, a bill introduced by the distinguished Senator from Nebraska, Carl Curtis, which would amend the Rural Electrification Act of 1936 to authorize the Rural Electrification Administration to provide grants to both electric and telephone borrowers which have suffered damage to their systems as a result of natural disasters.

In the Disaster Relief Act Amendments of 1974, nonprofit rural electric and telephone systems were made eligible for Federal grants to repair or replace facilities damaged or destroyed in natural disasters. The Federal Disasters Assistance Administration, an Agency of the Department of Housing and Urban Development, administers that act.

Under the law, a State's Governor must request assistance from the President following a major disaster as the first step. Then it is up to the President to determine whether the catastrophe is of sufficient severity and magnitude to warrant assistance from the Federal Government to supplement resources from State and local governments in ameliorating the losses and hardships. Unless the President declares a disaster, Federal grants cannot be made under this statute.

In the instance of the blizzard of March 10, 11, and 12 of this year which struck Nebraska, Colorado, and Kansas and caused extensive losses to rural electric utilities, the President followed the recommendation of the Federal Disaster Assistance Administration that a disaster declaration not be made. The Governors of the three

States affected appealed this decision, and the Federal Disaster Assistance Administration held a hearing at which Senators of the States, congressional representatives, and rural electric spokesmen submitted detailed financial statements and reports in support of reversing the FDAA decision.

On May 18, FDAA reaffirmed its original decision recommending that the President not declare a major disaster. According to the FDAA Administrator his agency based its recommendation on its belief that the rural electrics had the capability of financing repairs to their facilities without grants, pointing out that they could borrow the funds from REA at 2 percent interest.

As testimony at recent oversight hearings on FDAA held by Senator Quentin Burdick's Subcommittee on Regional and Community Development of the Committee on Environment and Public Works underscores, the rural electrics of the affected States strongly disagree with the FDAA conclusion. They presented impressive arguments in well documented statements to support their views. In addition, they were supported by my distinguished colleague, Senator Curtis, in his statement to Senator Burdick's subcommittee. Moreover, the board of directors of the National Rural Electric Cooperative Association at its meeting last month adopted a resolution asking grants be made to these rural electrics such as S.1729 would provide.

It is my understanding that the bill which this subcommittee is considering today is a direct consequence of the unfavorable FDAA decision. S. 1729 would permit reimbursement to these rural electric systems for storm damage in the form of grants from the REA electric and telephone revolving fund. Further, the bill would authorize grants to all eligible REA borrowers when they incurred storm damage if a Governor determined it was needed and the REA Administrator determined that assistance under the Disaster Relief Act of 1974 was inadequate or unavailable.

Obviously, any piece of legislation gives rise to certain questions. Possible problem areas have been put to me concerning the provisions of S. 1729.

First, it has been pointed out that if Congress should specify in some way at what point the Federal Disaster Assistance Administration drops out of the picture and the REA steps in.

Second, concern has been raised about the cost of the bill. It deals only with grants whereas rural electrics have traditionally operated on a loan basis. Given a huge natural disaster, one could see where this legislation could get very expensive. It could drain the rural electric revolving fund considerably, and while the bill assumes that it will be reimbursed from appropriations, there is no assurance that this would always be the case. There is valid concern that if the costs get too high shortages could develop in the availability of loan funds for other REA cooperatives throughout the Nation.

I hope this hearing will answer these and other concerns.

At this point I will insert a copy of S. 1729 along with a report from the Department of Agriculture.

[The bill and report follow:]

[S. 1729, 95th Cong. 1st Sess.]

A BILL To amend the Rural Electrification Act of 1936 in order to permit the use of the Rural Electrification and Telephone Revolving Fund to repair and replace certain electric power and telephone lines and equipment damaged or destroyed in rural areas by natural disasters

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 302(b) of the Rural Electrification Act of 1936 (7 U.S.C. 932) is amended by striking out "The" at the beginning of such section and inserting in lieu thereof "Except as provided in subsection (c), the".

(b) Section 302 of such Act is further amended by adding at the end thereof a new subsection as follows:

"(c) The Administrator is also authorized to use the assets of the fund to pay for the necessary repair or replacement of electrical or telephone lines and facilities damaged or destroyed in any area of the United States as the result of a hurricane, tornado, storm, flood, highwater, wind-driven water, tidal wave, tsunami, earthquake, volcanic eruption, landslide, mudslide, snowstorm, fire, explosion, or other catastrophe which is of such severity, as determined by the Administrator, to require assistance under this subsection. Assistance under this subsection may be made available in any area of a State only if the Governor of such State has determined that such assistance is needed and requests the Administrator to make such assistance available in such area. Assistance under this subsection may be made only to public or private nonprofit utility or telephone companies or cooperatives serving rural areas and may be made only for the purpose of restoring electric power or telephone service to rural areas. In determining whether assistance shall be made available to any applicant therefor under this subsection, the Administrator shall take into consideration the extent of the damage suffered by such applicant as the result of the catastrophe and the financial situation of such applicant. The Administrator shall exercise his authority to make assistance available under this subsection when he determines assistance under section 402 of the Disaster Relief Act of 1974 (42 U.S.C. 5172) is inadequate or unavailable. There are authorized to be appropriated from time to time such amounts as may be necessary to reimburse the fund for amounts used by the Administrator under this subsection.".

SEC. 2. The amendments made by the first section of this Act shall be effective as of March 1, 1977.

DEPARTMENT OF AGRICULTURE,
OFFICE OF THE SECRETARY,
Washington, D.C., July 20, 1977.

Hon. HERMAN E. TALMADGE,
Chairman, Committee on Agriculture, Nutrition, and Forestry, U.S. Senate.

DEAR MR. CHAIRMAN: This is in reply to your request of June 30, 1977, for a report on S. 1729, a bill "To amend the Rural Electrification Act of 1936 in order to permit the use of the Rural Electrification and Telephone Revolving Fund to repair and replace certain electric power and telephone lines and equipment damaged or destroyed in rural areas by natural disasters."

This Department recommends that the bill not be enacted.

The bill would, effective March 1, 1977, amend the Rural Electrification Act to authorize the Administrator of REA to make grants from the Rural Electrification and Telephone Revolving Fund for repairing and replacing facilities damaged or destroyed as a result of specified disasters and catastrophes. The Administrator of REA could offer a grant to public or private nonprofit utilities or telephone companies or cooperatives serving rural areas to restore electric power or telephone service. Such grants may be provided only if assistance under section 402 of the Disaster Relief Act of 1974 is determined to be inadequate or unavailable.

Section 236(a) of the Disaster Relief Act of 1970 now authorizes the Secretary of Agriculture to readjust the schedules for payment of principal and interest on loans to REA borrowers and to extend loan maturity dates for such borrowers that need this assistance as a result of a major disaster. This loan extension authority is more liberal than the loan extension authority contained in section 12 of the Rural Electrification Act.

Authority presently granted to this Department and the Federal Disaster Assistance Administration appears to be adequate to meet the needs of REA borrowers. Therefore, this Department believes that the changes in the REA Act embodied in S. 1729 are unnecessary and unjustified, and the proposed duplication of grant authority is not in the interest of an orderly administration of a disaster assistance program.

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

Sincerely,

JOHN C. WHITE,
Deputy Secretary.

Senator ALLEN. Senator Curtis, would you like to make an opening statement?

Senator CURTIS. Yes.

STATEMENT OF HON. CARL T. CURTIS, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman, we do appreciate you holding these hearings. It is an important subject and we also know how heavy the schedule is. We are very grateful for this opportunity to present this problem to the committee.

May I say at the outset that we have no particular pride in all of the provisions of S. 1729. We do think it is a good bill and to our advantage. But if the committee in its wisdom sees fit to add further guidelines as to when a disaster becomes of such magnitude that the grant provision should apply, we not only will accept that but welcome it. We have no desire to create a problem here that would be worse than the disasters that would drain this fund, that would give REA's an advantage in any way.

We do, however, face a very real problem. Throughout the decades Congress has responded to national disasters. A tornado strikes a great city and they have a special bill that would grant funds and grants were made. These ran into millions of dollars. Then we followed a policy of giving a sum of money to the President of the United States to cover that national disaster. That had its problems.

Finally, a few years ago we created the special disaster agency, made an appropriation to them and set down certain guidelines. They have utterly failed in this case to even give fair consideration to this problem.

A year earlier than this disaster that we mentioned here, southeastern Nebraska had a terrible storm. They submitted it to the disaster agency and a very sizable sum of money was made available in a grant because it fit right in with the national policy; it was in accord with treatment extended to other sections of the United States.

I am afraid what has happened is that the Office of Management and Budget with all of their problems grasp at straws and we know that if they have the discretion they do that. We know we have an overloaded budget and we must face up to the problem of how big a Government we want.

We cannot solve our budget problems by saying no to a just demand that is in accord with the national policy. I do not want

to give a lecture here on budget but almost as much money goes out in direct payments to individuals. We know that the welfare state comes from inaction. The Office of Budget and Management does not face up to that but grasps at straws to say no to a very small claim here and there.

This storm occurred in Kansas, Nebraska, and Colorado. Many of these REA's have a heavy load of debt now. They have had smaller storms, they have had other matters. They have had to respond to the revolution in rural living. When REA's were first established we needed light lines for light and radio and maybe the cream separator. That is no longer the case. They are great users of electricity; running irrigation, grinders, and everything.

Some lines had to rebuild. And these districts and cooperatives have had to borrow to the limit to meet the smaller disasters, the expansion of their lines. They went to their Government and somebody had a bright idea of saying, oh, we can say no because they can borrow 2-percent money.

Well, the rural electrics are loaded with debt now. These Government officials are ignorant of the operations of rural electrification, in pointing to us that they have the money in the bank, for the rural electrics must accumulate a little money to meet their regular payments.

So we think that here we have an unusual and different situation with the suppliers of electricity and to some extent the penalty, than we do in making grants in other disasters.

When this first storm occurred in Nebraska, southeast Nebraska, to which they did respond, they did not take care of the private loses. We are not asking that. They did help out these REA districts.

Senator ALLEN. That was the disaster assistance program?

Senator CURTIS. Yes.

They responded a year later on the same set of facts. They responded by saying no.

But here is what happened in there with the electricity: Irrigation pumps stopped, all the other electric equipment stopped, many farmers in the interim just did not have a total loss of all their agricultural endeavors of the year but went to stores and purchased portable generators and fired them with oil or something and produced electricity to try and go on. There was a great demand for them. Some of them bought generators that could not do the job and at a teriffic expense.

We are not asking for reimbursement of individual expenses.

But the supplying of this electricity is a responsibility that the Federal Government has taken on in the rural areas. They have fostered and fixed the power and authority and the limitations of REA and it was worse than a blunder, it was just an injustice when somebody says, well, you do not qualify in our national disaster program because you can borrow money at a lower rate of interest.

They have borrowed and borrowed and that is the situation.

Now, Mr. Chairman, that is why we are here. As we advance this bill we must devise some guidelines that will prevent losses, that will take care of real cases. But who better is able to judge the real needs of an area when disaster takes out all of their elec-

tricity than the REA's? An Agency cannot do that. They can fly over an area and say this bridge is out and that bridge is out and so on. But here is a specialized case where at least they did not.

The revolving fund has been built up by the REA's themselves and we do not know in what State the next disaster will strike. But we feel that that fund could well be used. I cannot tell you exactly how much money is in it but certainly it has considerable interest and could be used.

Mr. Chairman, I will not take more time because we have some excellent witnesses here. I am sure Senator Dole wishes to say something and following his statement I would like to insert in the record a statement of my colleague Senator Zorinsky.

SenatorALLEN. Without objection the statement will be inserted.*

STATEMENT OF HON. ROBERT DOLE, A U.S. SENATOR FROM KANSAS

Senator DOLE. I will be very brief.

I extend my appreciation to you for holding these hearings. You like many of us have at least five committee meetings in the morning as I have. I would not be able to stay but just a very brief time.

I would like first of all to insert in the record a letter addressed to Mr. Thomas P. Dunne, Administrator, Federal Disaster Assistance Administration, dated June 29, 1977, and signed by nine Senators who I think frankly just happened to be on the floor when Senator Curtis and others of us were discussing the disaster that occurred in Kansas, Nebraska, and Colorado.

I assume Mr. Dunne will reject—after having read his statement rather quickly—the plea in the letter. But I would like this letter made a part of the record and perhaps he will respond to our letter and also we can include that as part of the record.

Senator ALLEN. Without objection the letters will be inserted into the record.**

Senator DOLE. I cannot add anything to what Senator Curtis has said. Certainly S. 1729 perhaps can be revised or changed or maybe we could change the basic disaster legislation We will have a witness from Kansas to testify later in support of S. 1729, as I assume the others will who have been directly affected.

He will also indicate that just recently in the case of a tornado disaster it was declared a disaster and Federal assistance was granted and it is difficult for people living in the same area to understand why the distinction. There may be a good reason for it. If it is established that we should seek some other redress or in some other form perhaps there can be some constructive suggestions from the witnesses, not just flat out opposition to the bill that Senator Curtis has introduced and others of us support.

Thank you, Mr. Chairman.

Senator ALLEN. Thank you very much.

Mr. Granados, REA. I believe you are the Acting Deputy Administrator. We will be glad to hear from you at this time.

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*See p. 45 for the prepared statement of Senator Zorinsky.
**See p. 46 for the letter to Mr. Dunne and his response thereto.

STATEMENT OF LUIS GRANADOS, ACTING DEPUTY ADMINISTRATOR, RURAL ELECTRIFICATION ADMINISTRATION, U.S. DEPARTMENT OF AGRICULTURE

Mr. GRANADOS. Mr. Chairman, my name is Luis Granados and I am Acting Deputy Administrator of the REA appearing on behalf of the Administrator Mr Hamil and his Deputy Administrator who are attending another meeting and——

Senator ALLEN. Excuse me.

Your statement is the official policy of the REA, is that correct?

Mr. GRANADOS. Yes, sir.

The bill, S. 1729, would, effective March 1, 1977, amend the Rural Electrification Act to authorize the Administrator of REA to make grants from the Rural Electrification and Telephone Revolving Fund for repairing and replacing facilities damaged or destroyed as a result of specified disasters and catastrophes

The Administrator of REA could offer a grant to public or private nonprofit utilities or telephone companies or cooperatives serving rural areas to restore electric power or telephone service. Such grants may be provided only if assistance under section 402 of the Disaster Relief Act of 1974 is determined to be inadequate or unavailable.

It should be noted that section 236(a) of the Disaster Relief Act of 1970 now authorizes the Secretary of Agriculture to readjust the schedules for payment of principal and interest on loans to REA borrowers and to extend loan maturity dates for such borrowers that need this assistance as a result of a major disaster. This loan extension authority is more liberal than the loan extension authority contained in section 12 of the Rural Electrification Act.

The Rural Electrification Act also provides for special 2 percent loans, at the discretion of the Administrator, in cases of extenuating circumstances or extreme hardship. This provision, coupled with provisions contained in section 236(a) of the Disaster Relief Act of 1970 would appear to be adequate authority to meet the needs of REA borrowers.

Therefore, we believe that the changes in the Rural Electrification Act embodied in S. 1729 are both unnecessary and unjustified and the proposed duplication of review in the grant authority is not in the interest of an orderly administration of a disaster assistance program.

This concludes my statement.

Senator ALLEN. Thank you, Mr. Granados.

This hearing is being held for the purpose of determining whether we should set up a grant program in REA in addition to your present loan programs.

Senator Curtis was commenting on the amount in the revolving fund. Would you give that for the record at this time?

Mr. GRANADOS. Its assets total about $8.8 billion at the present time.

Senator ALLEN. $8.8 billion?

Mr. GRANADOS. Yes.

Senator ALLEN. Now, this money is a nonreplenishable fund that is used for the purpose of loans and in particular providing collateral for guaranteed loans, is that correct?

Mr. GRANADOS. Yes, sir.

It is replenishable from——

Senator ALLEN. I understand from repayments. But I am talking about from the Treasury?

Mr. GRANADOS. As new loans are made, Senator, they go into the fund.

Senator ALLEN. I understand.

Mr. GRANADOS. That is collateral, too. So to that extent then it is replenishable.

Senator ALLEN. New loans from the fund furnished by the Treasury rather than the REA?

Mr. GRANADOS. When we make a new loan.

Senator ALLEN. That comes out of the fund?

Mr. GRANADOS. Yes, sir.

And it goes back into the fund.

Senator ALLEN. So you are correct, to replenish the fund?

Mr. GRANADOS. Yes.

Senator ALLEN. But no more seed money from Treasury other than the Treasury's annual contribution to the telephone bank?

Mr. GRANADOS. That is correct.

Senator ALLEN. I wish you would describe—now, when you say about $8.8 billion, that means really in outstanding loans, does it not?

Mr. GRANADOS. That is correct.

Senator ALLEN. Do you have any cash on hand on the books of Treasury?

Mr. GRANADOS. Generally, the only cash we would have would be the payments on loans received during the year and those, of course, are used to make advances on loans as required by the borrowers.

Senator ALLEN. I see.

Mr. GRANADOS. To obtain any additional cash needed, on a weekly basis REA borrows from the Treasury against the amount of notes that are in the fund and then twice a year sells Certificates of Beneficial Ownership to the Federal Treasury Bank to repay the short-term loans that are made on that basis.

Senator ALLEN. What interest do you pay?

Mr. GRANADOS. Currently about 8 percent.

Senator ALLEN. Eight percent?

Mr. GRANADOS. A little over 8 percent, yes.

Senator ALLEN. And in some cases make 2 percent loans, is that right?

Mr. GRANADOS. Yes, sir.

Senator ALLEN. Now describe, if you will, how your guarantee of loans works.

Mr. GRANADOS. Well, for large-scale projects we guarantee loans that are made by the Federal Financing Bank or other legally organized lenders. When the Federal Financing Bank makes the loan the money comes from the bank through REA as if it were a regular REA loan.

Senator ALLEN. What is your outstanding amount of guaranteed loans?

Mr. GRANADOS. It is a little less than $8 billion, right now.

Senator Allen. In other words, it just about offsets your loans payable to REA, is that right?

Mr. Granados. Yes, sir.

Senator Allen. I do not believe you have sustained any losses on your guarantee loans?

Mr. Granados. We have not sustained any real losses on any of our loans except two very small ones back in the early days totaling about $45,000.

Senator Allen. You certainly have a remarkable record and certainly it is a fine program we all support.

Now, what type of loans is it that you guarantee?

Mr. Granados. In the electric program it is principally generating programs.

That is, generation and transmission facilities. We also guarantee some loans in the telephone program.

Senator Allen. How many REA's or co-ops are there throughout the Nation?

Mr. Granados. A little over 900 electric co-ops and about 250 or so telephone co-ops.

Senator Allen. Do you make loans also to profitmaking concerns?

Mr. Granados. Yes, sir.

We make loans to telephone companies and we do have a few, very few power companies that we make loans to.

Senator Allen. Well, would the proposed grant program be co-extensive with your loan program, would everyone eligible for an REA loan, would they under the required circumstances be eligible for the grant program?

Mr. Granados. It would seem so from, the way I read the bill, yes, sir.

Senator Allen. I do not believe the bill covers profitmaking concerns, or would it?

Mr Granados. It says telephone companies and that is where profit-type company comes in.

Senator Allen. So grants could be made to the private enterprises as well, the way you understand it?

Mr. Granados. The way I understand it.

Senator Curtis. At that point may I suggest something?

Senator Allen. Yes, sir.

Senator Curtis. That is true.

If the bill were to be advanced we have a notation here, as a matter of clarification that it would limit it to the——

Senator Allen Public and private concerns?

Senator Curtis. Not the private.

Senator Allen. Not the private?

Senator Curtis. Not the private.

Senator Allen. I see. In other words, the bill would be amended at that point?

Senator Curtis. That is right.

Senator Allen. Now, under your present program, if you have a borrower who suffers a national disaster, would you be empowered to readjust the present loan to stretch it out and possibly reduce the interest rate?

Mr. GRANADOS. Yes, sir, but only the interest rate on the new loan can be reduced to 2 percent. The Administrator under section 12 of the Rural Electrification Act and the Secretary, under section 236 of the Disaster Relief Act, have the capability of changing the maturity dates of loans and loan payments. We can defer payments of principal and interest; for example, a borrower may have 10 or 12 different loans owed to REA at any given time. We could, for example, make a borrower a 2 percent loan to take care of a disaster, and reschedule other payments so that debt service would not be increased.

Senator ALLEN. I was not quite sure whether you said you could reduce interest rates on existing loans.

Mr. GRANADOS. The Administrator has the authority to make new loans at 2 percent interest for circumstances such as this.

Senator ALLEN. I am talking about if he has a 6 percent loan, could you cut that to 2 percent?

Mr GRANADOS. You mean if the loan was already on the books?

Senator ALLEN. Yes, sir.

Mr. GRANADOS Or for a disaster? I do not believe we have authority to do that on existing loans.

Senator ALLEN. But you could stretch it out, if you modify the terms, could you not also modify the interest rate?

Mr. GRANADOS. Well, for a new loan that was for a particular disaster.

Senator ALLEN. Yes. But not existing loans?

Mr. GRANADOS. Not existing loans

Senator ALLEN. Well, now, this proposed legislation in your judgment, does this damage the integrity or stability of the revolving fund or jeopardize your ability to make out insured loans in the future?

Mr. GRANADOS. Well, that of course would depend on the extent of the loans that came from the fund. Our experience with disaster loans in the past has been that they did not involve tremendous amounts of money. So it is hard to say whether they would jeopardize the revolving fund.

Senator ALLEN. This bill it would seem does not require a Presidential declaration of disaster. It would require only the Governor to make that declaration.

Do you think the Governor would be hesitant to make these declarations or do you think he might more or less rubber stamp a request inasmuch as it was not coming out, the money was not coming out of the State treasury?

Mr. GRANADOS. I would not know how a Governor would act, except it would put a Governor in the position of declaring a disaster when the President may not have declared a disaster.

Senator ALLEN. Governors are not very reluctant to make requests of the Federal Government, are they, for assistance?

Mr. GRANADOS. I guess that is true. I do not believe they would be.

Senator ALLEN. You would not have——

Senator DOLE. As soon as it gets cloudy they start preparing their telegrams.

Senator ALLEN. I guess no one knows what fate has in store for us so I guess it would be very difficult for you to give any estimate of what the cost of the program would be.

Mr. GRANADOS. I do not know exactly what it would be. I can tell you a little bit about some of the damage that was sustained by borrowers in the three States.

Senator ALLEN. Well, I think that would be interesting and we will elicit that same information from the REA cooperatives.

Mr. GRANADOS. In the storm of March of this year 10 of our electric borrowers were affected: three of them in Colorado, two in Kansas, and the rest in Nebraska. Of those 10, only four applied to REA for loans to offset the storm damage. Of course, these loans may have covered some additional material besides what was damaged by the storm. One loan was for some $5 million. The other was——

Senator CURTIS. Just a minute.

Would the request they made of the Disaster Agency be more indicative?

Mr. GRANADOS. Yes.

Senator CURTIS. If you want to know what this costs, you go back and see in previous decades how much the agency paid out for losses to rural electrics. These loans are not responsive to his question.

Mr. GRANADOS. These loans were made to repair storm damage.

Senator CURTIS. But you said "other things".

Mr. GRANADOS. It is possible other things were included in the loan. But the primary purpose was to repair storm damage as a result of the storm in March.

Senator CURTIS. I did not mean to interrupt.

Senator ALLEN. That is all right.

That would not necessarily be the criteria would it, Senator Curtis, because they always grant disaster relief to the cooperatives? I mean just checking the past records.

Senator CURTIS. They did until this year. I think they treat them like every other citizen.

Senator ALLEN. Now, would you give me the information then on what the total borrowings were by the cooperatives who applied to you for assistance?

Mr. GRANADOS. Well, of the borrowers that did receive storm damage, four applied to REA for loans to take care of that damage and of those four, three were already 2 percent type borrowers. The fourth one was actually a borrower that would ordinarily have required a 5 percent loan, however, the Administrator used his discretionary authority to make that a 2 percent loan also. The remaining six of the borrowers that were damaged did not apply for assistance from REA for storm damage.

The amounts of the loans, one was $5,100,000; one was for $3,250,000; one of them was for $220,000; and another one was for $577,000.

Senator ALLEN. Relatively small loans?

Mr. GRANADOS. Yes, sir.

Senator ALLEN. Now, you would not know whether these loans were more or less than the damage because you indicate that some

may have borrowed for other purposes and put it in the loan. Of course, these were all 2 percent loans?

Mr. GRANADOS. They were all 2 percent loans.

Senator ALLEN. And I believe you said you were paying 8 percent, approximately 8 percent on money borrowed from the Treasury?

Mr. GRANADOS. On new money which we have to borrow.

Senator ALLEN. And you lend it out in every case at less than the amount you are paying?

Mr. GRANADOS. However, the bulk of what we loan is not from borrowing. I want to make it clear that the bulk we lend out comes from repayments we have received on loans outstanding.

Senator ALLEN. I understand.

But what is the differential between the amount of money that you pay in interest and what you receive in interest?

Mr. GRANADOS. Well, to fund 2 and 5 percent loans currently we are paying a little in excess of 8 percent, when loan collections don't suffice.

Senator ALLEN. I mean for the whole operation, how much are you falling behind in getting reimbursement on loans you make?

Mr. GRANADOS. I do not have the exact figures but I can get that.

Senator ALLEN. You might supply it for the record.

How much are you lending now per year and how much are you receiving on loans? Can you give me that figure?

Mr. GRANADOS. I can give the figure for fiscal year 1976. In fiscal year 1976 we advanced out of the fund a little less than $1 billion.

Senator ALLEN. I see.

Senator GRANADOS. Actually, $822 million.

Senator ALLEN. How much did you take in?

Mr. GRANADOS. Of that amount, $604 million came from the payments that borrowers made on their loans, from borrowing, on a short-term basis, and from selling Certificates of Beneficial Ownership in the fund.

Senator ALLEN. In other words, you are falling behind a couple hundred million dollars a year, is that right?

Mr. GRANADOS. It could be probably to that extent, yes, sir.

Senator ALLEN. Well, now, these grants of course would never come back, the loans would at a reduced rate of interest?

Mr. GRANADOS. Well, according to the bill it did say that the appropriations could be made on reimbursements to the fund for the grants.

Senator ALLEN. Well, let me ask this: You have this figure and I think it might be interesting. How much did you pay out in interest and how much did you receive in interest?

Mr. GRANADOS. I do not have that figure. But I can get it, if you would like to have it.

[The following information was subsequently received by the committee.]

From May 11, 1973, when the Rural Electrification and Telephone Revolving Fund was established, until June 30, 1977, the total interest earned on REA loans was $748,657,605, the total interest expense was $33,776,480 as REA does not have to pay interest on amounts borrowed prior to July 1, 1972.

Senator ALLEN. Well, in no case do you get as much from the borrower as you pay the Government for interest, is that right?

Mr. GRANADOS. That is correct when the funds come from borrowing.

Senator ALLEN. And in some cases it could be a differential of as much as 6 percent?

Mr. GRANADOS. That is correct.

Senator ALLEN. So actually you are going to have to keep your nose above the water right now, are you not?

Mr. GRANADOS. I would expect so, although it does not seem to be a handicap at the present time. But, yes, sir.

Senator ALLEN. Well, most people run into difficulty if they are paying out more than they receive. I guess that applies to Government agencies, does it?

Mr. GRANADOS. These borrowings are wiped out twice a year by selling the Certificates of Beneficial Ownership in the fund to the Federal Financing Bank.

Senator ALLEN. Yes.

But still you are lending out at a greater rate than the repayments?

Mr. GRANADOS. Yes, sir.

Senator ALLEN. Now, under this bill the grants cannot be made unless the Disaster Relief Agency, that is, help from them is inadequate or unavailable. Now that might take, I assume, the co-ops would continue to apply initially to the Disaster Agency, would they not?

Mr. GRANADOS. I would assume so. Over the past there have been about 45 of our borrowers who have received grants from the FDAA.

Senator ALLEN. But not last year—not this year, though?

Mr. GRANADOS. No.

Senator ALLEN. I wonder why in the world they stopped. Congress did not change the criteria. Why would they have stopped?

Mr. GRANADOS. Well, now, there were 35 borrowers that appiled to FDAA and were turned down.

Primarily they were turned down I understand because the States were not declared eligible for disaster assistance.

Senator ALLEN. I understand.

But even after a declaration was made and we will ask the Administrator a little later on, it would seem that if the cooperative is solvent and has good credit, that would seem to enter into the decision rather than whether they sustained a calamity or disaster.

Now, with the source of first recourse being the Disaster Agency, I am just wondering if the existence of this procedure might cause the Disaster Agency to close up shop as regards the co-ops in the future and say, well, there is no need of applying to us, we have got so many other people applying to us you fellows have an REA over there. They have got grant authority. I am just wondering if you would not be kissing goodby the facilities and the grants fund of the Disaster Agency if this procedure is set up in the REA. What is your thought on that?

Mr. GRANADOS. That would be a possibility, yes, sir.

Senator ALLEN. Well, if, as the bill says, the resort to disaster agency is inadequate or unavailable I assume it would be sometime before you would know where you could get any grant money over there and the co-op would need the funds right away, I would assume. Would not that kind of setup be a bureaucratic nightmare, the taking of weeks and months possibly to find out whether the Disaster Agency is going to do anything and the co-op needing assistance the next day? Is that not just going to provide more Government redtape for this procedure?

Mr. GRANADOS. It possibly would; yes, sir.

The loans that REA made at 2 percent to repair damage, just to give you a couple of figures, included two loans made in Nebraska last year. One of them took 29 days from the time that they applied until they got the cash in their hand, and the other took 20 days from the time they applied until they got cash in their hand.

Senator ALLEN. Well, now, Senator Curtis has suggested that the bill does not set up any guidelines. If this responsibility is given to the REA, what sort of guidelines would you suggest to be followed in this area?

Mr. GRANADOS. The bill was pretty specific, it would seem, on what was suggested that REA could do. It does put the REA Administrator in the position of making a judgment as to when there is a disaster, on the request of a Governor. Other than that, I assume the procedures would be the same.

Senator ALLEN. I notice this says the extent of damage resulting from such disaster, and the financial situation of such applicant. Would not that possibly allow you or cause you to adopt the same criteria that the disaster agency did that these co-ops had good credit and had opportunity to borrow 2 percent money and therefore they could not help? And would that not then possibly cause you to say, well, we do not have any grant money but we have some good loan funds here available?

Mr. GRANADOS. I do not know how that judgment could be made. At the present time we make a loan when required to repair damages.

Senator ALLEN. It looks to me like—and this disturbs me—the co-op sustains the damage, comes to REA, and says, look, I want this grant. And you are put in the unenviable position of having to say, well, we cannot give you any grant money; all we have available is loan money. It just seems that that might create a situation there that you would not look upon with a whole lot of favor, is that correct?

Mr. GRANADOS. That is correct.

Senator ALLEN. It would be a difficult decision for you.

Mr. GRANADOS. Yes, sir.

Senator ALLEN. As to whether you are going to give the money away or lend it over a long period at 2 percent?

Mr. GRANADOS. At present we have pretty clear guidelines as to what borrowers get 2 percent and what borrowers get 5 percent loans. I am not quite sure what the guideline would be with respect to which borrower got the grant and what one got a loan.

Senator ALLEN. In other words, this sets up a new category for you. You can give the money away, lend it at 2 percent, or lend it at 5 percent, is that right?

Mr. GRANADOS. That is correct.

Senator ALLEN. Although that might not be the healthiest situation around. And some borrower that had, well, 5 percent is not the maximum, is it?

Mr. GRANADOS. It is the maximum for the regular REA loan. We have the guarantee which is at a higher rate.

Senator ALLEN. Senator Curtis?

Senator CURTIS. You said that in the past certain applications of REA's for grants from the disaster agency had been turned down and that they had been turned down because the President did not declare the area a disaster area, is that correct?

Mr. GRANADOS. That is what I understand, yes, sir.

Senator CURTIS. Have they been turned down for any other reasons?

Mr. GRANADOS. I do not know.

Senator CURTIS. Now, who authorized the policy that the disaster agency should turn down requests of REA's, treat them differently than other sufferers; just because they have access to a lower rate of interest.

Mr. GRANADOS. I would not know, Senator.

Senator CURTIS. But it was inaugerated this year, was it not?

Mr. GRANADOS. That is my understanding.

Senator CURTIS. And Congress has made no change in the law?

Mr. GRANADOS. Right.

Senator CURTIS. Now, does the REA have a responsibility to take such action and do such things as protect the funds of the Government as well as the well being of the borrower?

Mr. GRANADOS. Well, when a borrower has damage we do everything we can to repair that damage through loans or whatever.

Senator CURTIS. Do you not have a responsibility to make a recommendation to the disaster agency on behalf of one of your borrowers?

Mr. GRANADOS. Well, we believe we have the capability of providing for disaster assistance.

Senator CURTIS. Yes. But you have the responsibility of protecting the loan of the Government?

Mr. GRANADOS. That is right.

Senator CURTIS. And here you just sat there and permitted another agency to treat all other entities that have suffered from disaster differently than REA's. Not much has been said here today about the damage to the revolving fund. We are not contending that the revolving fund has to profit there and could be used for this. But we do contend that electric energy has to be restored instantly. And that the REA should do that and then come to the Congress and have it replenished by appropriations. It is a matter of time though. In other words, we are back where we started. Years ago Congress appropriated money for disaster relief. Then we delegated an agency and this agency in violation of the law without any change comes in and says REA's are out of our purview because they have access to a lower rate of interest.

I do not think the REA should have stood still and let that happen. I think you have a responsibility to protect the soundness of your borrower for the interest of the Federal Treasury and that the REA should have insisted, should have been an advocate for these

people who suffered a loss by insisting that the disaster agency not summarily turn down all their claims. And they just turned them down in three States. No examination of the individual claims, just merely said because they had access to a low rate of interest.

Senator ALLEN. Would the Senator yield at this point?

In your opening statement, Senator Curtis, you suggested that we might possibly consider guidelines and other suggestions. I am just wondering if a possible approach and a possible solution would be to amend the disaster law by saying that the fact loan money was available would not be taken into consideration.

Senator CURTIS. I do not think that is necessary. All we have to do is ask them to obey the law. They did not have to go back more than a year to see that the pattern and principles are established.

Senator ALLEN. How are you going to get them to obey the law?

Senator CURTIS. I do not know. As long as that gang is there we are going to suffer. You have to put some new leadership into the disaster agency, is all I know. And I also think that the REA has been derelict in not protecting the interests of the taxpayers by not seeing that they get the help that Congress has provided for. I will not ask any more questions because we have a long list of witnesses here.

I would like to ask consent to insert the statement of Senator Pearson into the record.

Senator ALLEN. Without objection it is so ordered.*

Now, at the request of Senator Bellmon of Oklahoma, we are going to ask certain questions that they have raised as to S. 207, which is not a subject of the hearing today, be answered for use at hearings on that bill at a later date. And Mr. Granados, I will give you Mr. Hamil's copy of the letter and respectfully request you get him to answer that for Senator Bellmon and Senator Bartlett.** And when Senator Bellmon comes up I will give him his letter.

Thank you very much.

Senator Curtis, may I suggest that as to the next four witnesses whose testimony I understand will be similar, that we hear from all four witnesses possibly and interrogate them as a group.

Senator CURTIS. Very well.

Senator ALLEN. Mr. Dick Wilkerson, Mr. Al Ballard, Mr. Robert Partridge, Mr. Harold Shoaf. Gentlemen, do you have any preferences as to the manner in which you will proceed?

Mr. Partridge, do you want to start off?

Mr. PARTRIDGE. If I may, Mr. Chairman.

I can make an opening statement and then you will have the witnesses from the States in which the storms——

Senator ALLEN. Now, each of you have a prepared statement?

Mr. PARTRIDGE. Yes, sir.

Mr. SHOAF. Yes.

Mr. WILKERSON. Yes, sir.

Mr. BALLARD. Yes, sir.

Senator ALLEN. Very well. Mr. Partridge, if you will.

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*See p. 45 for the statement of Senator Pearson.
**See p. 46 for the joint letter from Senators Bellmon and Bartlett regarding S. 207.

STATEMENT OF ROBERT D. PARTRIDGE, EXECUTIVE VICE PRESIDENT, NATIONAL RURAL ELECTRIC COOPERATIVE ASSOCIATION

Mr. PARTRIDGE. Thank you, Mr. Chairman.

My name is Robert D. Partridge. I am executive vice president and general manager of the National Rural Electric Cooperative Association, the national service organization of nearly 1,000 nonprofit rural electric systems which provide electricity to over 25 million people in 46 States.

At its meeting last month the NRECA board of directors unanimously adopted a resolution which pertains to the bill, S. 1729, which is the subject of today's hearing.

The resolution, Mr. Chairman, emphasizes our strong support for the use of grants from the Federal Disaster Assistance Administration to rural electric systems which have incurred storm damage as a result of natural disasters. A total of 56 REA financed electric systems have received approximately $27 million since rural electric utilities were made eligible for such assistance in the Disaster Relief Act of 1974. We believe there was a good basis for including them since these nonprofit rural utilities are particularly vunerable to the hazards of weather, serving as they do vast geographic areas of the country.

Moreover, our systems have very low density. While rural electric cooperatives are private corporations, they perform a public service which investor-owned utilities would not or could not perform. Extensive storm damage could severely jeopardize the financial viability of these systems as well as imposing excessively high rates on the member consumers.

We are extremely appreciative of the action Congress took 3 years ago in amending the Disaster Relief Act to provide for Federal assistance to rural electrics to help them repair damage caused by natural disasters. However, the experience of rural electric systems in the States of Nebraska, Colorado, and Kansas which suffered widespread and costly destruction as a result of a blizzard last March, raises questions concerning the FDAA criteria for determining disasters. This has created uncertainty as to whether FDAA assistance will be available when catastrophes strike.

For example, in 1976, rural electric systems in eastern Nebraska experienced costly damage from a storm very similar to the one which severely damaged systems in the southwestern part of the State, in March of this year.

FDAA recommended that the 1976 storm be declared a disaster which it was and assistance was provided. But in the case of the 1977 blizzard, FDAA recommended that a disaster not be declared and it was not.

The Governors of the three States affected—Nebraska, Kansas, and Colorado—all requested that their States be declared disaster areas. It is my understanding that thousands of poles were destroyed as well as line equipment by the 100-mile-an-hour wind-driven snow.

According to the estimates of the statewide managers, the total financial loss came to about $19 million broken down by States as follows: Nebraska, $8 million; Colorado, $10 million; and Kansas, $1.4 million.

The three statewide rural electric organizations in testimony and reports to FDAA and a Senate oversight committee—Senator Burdick's Subcommittee on Regional and Community Development—disagree with FDAA's conclusion that the rural electric systems had sufficient reserves and borrowing capability to finance repair of the facilities, and that rate increases would not as FDAA put it, "be of major disaster proportions."

These statewide spokesmen, who also are appearing before you today, are better qualified than I to elaborate on the details as to the effect on the rural electric systems. In previous testimony they pointed out that much of the reserves which FDAA considered available to the rural electric systems were in the form of committed funds—such as capital credits—and could not be used for any other purpose. Further, they emphasized that while additional loans from REA at 2 percent interest could be obtained, these loans must be repaid with interest and are in addition to the loans that originally financed the destroyed facilities which also, of course must be repaid.

Another point which we believe needs clarifying was made by Senator Zorinsky at a hearing before FDAA, April 20, when the first turn down was being appealed. He said that he did not believe that people have to plead "poverty in order to get Federal assistance under the Disaster Relief Act." He added that the city of Omaha received FDAA grants as a result of a disaster there even though the city was in good financial condition and probably could have borrowed the money. In Senator Zorinsky's opinion, that is the way the law was intended to be implemented. This does not seem to be the way the law was implemented, in respect to the three States that suffered damage in the March storm. Apparently the decision revolved around whether there was sufficient justification of financial need. The rural electrics believed there was, FDAA did not.

But if Senator Zorinsky's interpretation of the law is correct, then these rural electric systems should have been reimbursed in any case.

We hope as a result of these hearings, Mr. Chairman, that these important points concerning FDAA disaster assistance will be clarified so that not only our rural electric systems but others eligible under the law will have a much better idea of what can be expected in the way of FDAA assistance when natural disasters occur.

Some of the uncertainty needs to be removed. We believe that this is one of the reasons Senator Curtis has introduced his bill, S. 1729. It would empower the Governor of the State to determine when such assistance is needed following a catastrophe and request the REA Administrator to make such assistance available to public or private nonprofit utility or telephone companies or cooperatives serving rural areas for the restoration of electric power or telephone service.

The REA Administrator would be authorized to make grants from the Rural Electrification and Telephone Revolving Fund when

assistance under the Disaster Relief Act of 1974 was either inadequate or unavailable. The revolving fund would be reimbursed by appropriations made by the Congress.

In summary, as the resolution by our board states—

> We strongly support the use of FDAA grants to repair damage caused by storm and other natural catastrophes to rural electric and telephone systems.

In addition the resolution calls for—

> Such additional action by Congress as is required to make whole these systems, including grants of the type provided by S. 1729, or in the alternative, a joint resolution by both Houses of the Congress urging the President to approve appropriate remedial grants for these systems under the FDAA.

Basically, Mr. Chairman, our disagreement with FDAA centers on the fact that first of all they did in previous years find that grants were justified under the act to the Rural Electrification systems and in 1977 in the case of these three States found for reasons not known to us that grants were not justified, that it was not a disaster within the meaning of the act. And we fail to see the difference. We see no difference in what happened in 1977 and what happened in 1976 and prior years.

Then, finally, in summary we also come back to the fact that a disaster which destroys electric or telephone plant imposes on the consumer member, or subscriber in the case of telephone system, the repayment twice of the facility. In other words, if no grant is made then the consumer is obviously the one who looses and that loss is pretty tough to take and it is one that the disaster assistance act was intended to preclude.

Mr. Chairman, that concludes my prepared statement and I will be glad to respond to questions now or after you have heard from the others in the States affected.

Senator ALLEN. Very well.

I believe we decided we would leave the questions and hear from the three State representatives themselves.

Mr. PARTRIDGE. The gentleman to my immediate right is Mr. Al Ballard, manager of the Nebraska Statewide Association.

Senator ALLEN. We would be delighted to hear from you at this time.

STATEMENT OF AL BALLARD, GENERAL MANAGER, NEBRASKA RURAL ELECTRIC ASSOCIATION, LINCOLN, NEBR.

Mr. BALLARD. Mr. Chairman, members of the committee, my name is Al Ballard. I am general manager of the Nebraska Rural Electric Association, headquartered in Lincoln, Nebr.*

This association represents 32 rural electric systems who serve the sparsely settled areas of our State. The average density of these systems is less than two consumers per mile. We serve nearly 123,000 consumers. In these areas, the people are heavily dependent upon electrical power for irrigation and other farm uses.

It is on behalf of these people—nearly all of them farmers—that I appear in support of S. 1729, introduced by Nebraska's Hon. Senator Carl Curtis.

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*See p. 53 for additional material furnished by Mr. Ballard.

This legislation will end the inequities now suffered by publicly owned rural electric systems in times of disaster. Our most recent experience with the National Disaster Agency indicates strongly that a declaration of disaster is subject to the whims of various people within that organization. Rural systems of Kansas, Nebraska, and Colorado have, as you have been told, just suffered an incredible decision by the Disaster Agency indicating dramatically that it changes its mind about what constitutes a disaster from one year to the next. I would like to relate this case in point to show the need for S. 1729.

To do this, I would like to go back to March 1976 when a brutal storm struck eastern Nebraska, snapping off poles, ripping down lines, cutting off power to thousands of rural people.

Nebraska's Governor requested that the damaged areas be declared a disaster area by the President, so that grant funds would be made available to the stricken systems. According to the memorandum, within a very short time the recommendation came from the White House and grants were made available to these systems.

In March 1977, an identical storm hit with the same fury, sweeping into western Nebraska, Colorado, and eastern Kansas. Many small towns and rural electric systems were almost devastated.

Over 10,000 consumers were without power. The time of this interruption ranged from a few days to over a month. Because of heavy snow, the roads were impassable and crews could not immediately restore service or assess damages.

The total system damage in Nebraska alone was in excess of $8 million.

The Governors of these States went into action. They requested disaster aid from the National Disaster Agency. All were flabbergasted when that year it was turned down.

The theory of the turndown was that there systems are eligible for 2 percent REA money and they could borrow the money for repairs and pass it on the consumer. The Agency utilized some questionable figures to show that over 30 years the impact on each consumer would not be very much.

The next theory was that these systems had large reserves on hand and could pay for the storm out of reserves. This is a very erroneous statement.

As a result, we asked for reconsideration. Two identical storms has occurred. One was a disaster and the other was not.

In the hearing for reconsideration we attempted to explain the bookkeeping procedures of REA. We attempted as best we could to show that a rural electric system's reserves are not spendable reserves. We knew the major obstacle was the Agency's lack of knowledge of rural electric programs.

Capital credits, for example, cannot be spent. Money held for loan payments cannot be spent. Money in reserve to pay a tremendous wholesale power bill cannot be spent. On paper each reserve showed the Agency the low actual amount of reserve that was spendable.

We went to a third meeting in the office of the Disaster Agency. We signed a piece of paper which I assume was to prove the staff had talked to us again and had reconsidered.

The Rural Electrification Administration is not a spendthrift organization. Mr. Chairman, as you know, it is an efficient, well-run operation, and its record is second to none in the business of lending money and having it paid back.

So I would like to clarify the statement "100 percent" loan that the Disaster Agency is using. It means the systems are eligible for 100 percent in our State of 2 percent money on the money they can borrow from REA. It does not mean 100 percent of the total damages.

The system's damages totaled $1,050,000.

Under the REA loan program, the system cannot borrow $1,050,000. They must first reduce the loan by the amount of the storm damage expenditures that are not covered by REA. Thousands of dollars will be spent in straightening up poles, replacing stretched line, correcting sags of lines, etc. This is considered maintenance by REA, and they do not loan money for maintenance.

In this case, the total estimated construction and replacement is $803,535. Under REA procedures, you must reduce this amount by the average original cost of the replaced units—$226,330. The 100-percent loan is for $577,000, approximately one-half of the damage suffered.

Southwest will have to spend $473,000 from its equities to cover this storm damage in addition to acquiring a long-term loan. This system's average annual net revenue is $94,000.

This system is also paying back two loans from previous storms where they did not apply for or get disaster aid.

Only the Rural Electrification Administration is qualified to judge the financial condition of this system. Only the Rural Electrification Administration knows the financial impact upon this system and its consumers.

The National Disaster Agency does not have this expertise, or even the expertise to interpret the reserves of this system.

Only the Rural Electrification Administration would know what portion of grant funds would be made available to keep this system viable.

S. 1729 is legislation which would insure the proper interpretation of a disaster and its financial impact on a rural system. It sets up safeguards to avoid abuse by requiring a declaration of a disaster by the Governor of the State.

It even gives the Disaster Agency the first opportunity for input into the damages.

In closing, we would respectifully request this committee to support S. 1729 and to place rural electric disaster judgments under the proper, knowledgeable agency.

Senator ALLEN. Thank you very much, Mr. Ballard.

Senator Zorinsky, we are delighted to have you here. I might say your name has been favorably mentioned on several occasions in testimony you have given before the other Agency and has been alluded to and Senator Curtis has put your statement into the record.

If you would like to make a further comment we certainly would be glad to hear from you.

Senator ZORINSKY. Thank you, Mr. Chairman.

95-089—77——4

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Senator ZORINSKY. I do not want to be redundant in going over the same ground that all the people at this table have heard before. However, it is a deep concern of mine that, in my estimation, the Federal Disaster Assistance Administration has been abdicating their duties in this case and the alternative is for REA to obtain the money elsewhere and the farmer and the consumer of energy is the one going to end up paying for it.

Today with the serious economic situation confronting the farmers not only in Nebraska, Kansas, and Colorado, but in this entire Nation, it becomes an additional increment to the cost of production, and further, puts them in a situation where they cannot remain in business. It is my deep concern and wish that this committee, Mr. Chairman, will look at this in a manner in which one end of the Federal bureaucracy has dropped the ball and abrogated its responsibility and hopefully we can seek relief through the approach of Senator Curtis' bill.

Thank you, Mr. Chairman.

Senator ALLEN. Thank you, Senator Zorinsky. I appreciate your statement and your full statement will appear in the record.*

Senator Curtis, let me make this suggestion. Unless Mr. Wilkerson or Mr. Shoaf have something different to add, I believe we get a thrust here of the legislation. It might be well for them to put their statements in the record as if given in full and let us proceed to discussion of this matter a little bit.

Senator CURTIS. Of course, they do represent different States.

How long is your statement?

Mr. WILKERSON. My statement is not very long and I could maybe make a few comments.

Senator ALLEN. We will be glad to hear from you.

STATEMENT OF DICK WILKERSON, GENERAL MANAGER, COLORADO RURAL ELECTRIC ASSOCIATION, DENVER, COLO.

Mr. WILKERSON. Mr. Chairman, my name is Dick Wilkerson. I am the general manager of the Colorado Rural Electric Association.

As pointed out by Mr. Ballard of the experience by the three States in his statement, Colorado has had more than $10 million involved and two of the five distribution cooperatives of the involved area had the most serious damage that applied. One had damages in excess of $5 million and the other had damages in excess of $3 million and so on. So we saw it a little differently than the other two States.

One point I would like to emphasize is that I was aware, as a number of other people were in my area, of what took place last year in Nebraska and we knew what the criteria was. What we are greatly concerned about is that apparently the criteria has changed because I have very close contact with what happened in the State of Colorado and I can assure you that in my opinion if anything it was worse than what took place last year.

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*See p. 45 for the prepared statement of Senator Zorinsky.

So we believe that the purpose and intent of what Senator Curtis is trying to do in the bill is right. Something has got to be done. And we say this because suddenly the rules have changed and we do not know what are the criteria is anymore.

So if I can emphasize that point I hope we will have time for questions.

But generally I wanted to make the point which is we want to know what we can expect and what will be the rules in the future.

With that I will just leave my statement for the record.

Senator ALLEN. Thank you very much. Your statement will appear in the record.*

Mr. Shoaf you may proceed.

STATEMENT OF HAROLD SHOAF, ADMINISTRATIVE ASSISTANT TO THE GENERAL MANAGER, KANSAS ELECTRIC COOPERATIVES, INC., TOPEKA, KANS.

Mr. SHOAF. Mr. Chairman, my name is Harold Shoaf. I represent 37 electric cooperatives serving approximately 125,000 consumers and members in the State of Kansas.

I agree with my colleagues in the information they have presented. Our basic concern is that we feel the decisions of FDAA have been inconsistent. We further believe that our three States are being discriminated against. We are open to the wisdom of this committee to solve this problem in the manner they think most appropriate.

Kansas RECs believe that Senate bill 1729 is of significant importance due to the fact that we in Kansas like some other States are vulnerable to storm damage. Kansas REC's have 65,000 miles of electric line which is enough to go around the world 2½ times. Kansas REC's serve in 103 of Kansas' 105 counties. Therefore when a national disaster occurs in Kansas, such as blizzard or tornado or flood, the sparcely populated areas are especially vulnerable. Such natural disasters may destroy an entire electrical system and cause devastating livestock and other property loss.

Mr. Chairman, I will not repeat other testimony that has been presented. We do sincerely appreciate your kindness in hearing our problem and hope that something can be done to correct what we believe is the inconsistencies of the decisions that have been made.

Thank you very much.

Senator ALLEN. Thank you.

Your entire statement will appear in the record.**

Now, Senator Curtis, I am going to suggest that you and I—and Senator Zorinsky, we would be glad to have you participate in the questions if you desire. But, I am going to suggest that we alternate the questions rather than me monopolozing the time and ask you to ask some questions.

Senator ZORINSKY. In the interest of time, Mr. Chairman, I am sure Senator Curtis and I would have very little to ask.

Senator CURTIS. Yes. I think the statements bring out the facts, too.

Senator ALLEN. I am a little uncertain here on the March storm. I have heard it stated that no disaster was declared and also they

*See p. 56 for the prepared statement of Mr. Wilkerson.
**See p. 58 for the prepared statement of Mr. Shoaf.

were turned down, that you were turned down because of the fact that you could get 2 percent money.

Now, are both of these statements correct or which statement is correct? If no disaster was declared, was anybody eligible for this? Just what was the situation?

Mr. WILKERSON. Mr. Chairman, in the State of Colorado, because we had two systems extremely hard hit, immediately they had a cash flow problem and the first indication Colorado had from FDAA came at a time when we had concluded from REA that loan funds were being arranged. We always assumed that we would have the loan funds because historically when anything like this happened they would come through. But we did not have a loan at the time. The loans were not instigated until after the first decision from the FDAA.

Senator ALLEN. I will have to repeat the question then.

Was the loan or grant application turned down because no disaster was declared by the President? If that is the case, that was the reason for the turndown, was it not; not the fact that you could get 2 percent loans?

Mr. PARTRIDGE. May I respond? And Mr. Ballard will also, I am sure.

The recommendation of the Federal Disaster Assistance Administration was that the President not declare the area a disaster area. They gave as one of the reasons among others that it was their view that cooperatives had access to low-cost financing from REA. And additionally, in a letter that I had from the Administrator of the FDAA he also pointed out they considered it not to be of sufficient magnitude to warrant such a designation.

Senator ALLEN. If it is a three-State storm I would feel that the cooperatives were not the only people who suffered damage. Why would it be different on this situation involving the cooperatives? I mean, surely somebody was hurt besides the cooperatives.

Mr. PARTRIDGE. I am sure there was a great deal of damage in the States. In fact, Colorado, Mr. Wilkerson can respond to this part better than I can. The Governor did request——

Mr. WILKERSON. That is correct, Mr. Chairman. Agricultural crops, livestock losses, and so forth in the State of Colorado were in excess of $89 million and the Governor did include this in his request, it also included this information.

Now, as we have discussed these aspects with the FDAA, my statement points out that we felt they did not want to consider these other losses, they wanted only to talk to us in terms of utilities. And we can undersand that because probably that is within the parameters of their area of responsibility. But yet we had 100,000 people impacted by $100 million in loss. And we feel from our standpoint in looking at the situation that we have got to take all of those things into consideration.

What they pointed out to us is that there are other loans through SBA and Farmers Home and so forth that will be available to those people.

I want to point out to you, Mr. Chairman, that to the best of my knowledge right now there have not been any funds made available to those people through those loans because I hear this on the news

day after day after day. I do not know why that has not happened. But again, we have to keep thinking that a loan has to be paid back and our greatest concern here is that the most important quality we have to be concerned about with FDAA is the grant. And therefore we do not have interest and money to pay back and that is pretty important.

Senator ALLEN. There must have been more people damaged than the cooperatives. It would not be directed just against these lines. So what about these other people who are damaged, how are we going to take care of them?

Senator CURTIS. Now, storms of this kind are peculiar. If you have a flood, it hits everything and the counties, if they maintain bridges, have their bridges washed out. There is a certain type of snowstorm and sleetstorm or mixture thereof that can be disastrous. But when it is all over it is the things above ground that take it. I have lived in Nebraska all of my life and we have storms where the only damage mentioned is of a public nature because the private individuals do not mention it. All the lines go out and that is not uncommon. Now, unlike a tornado or unlike a flood or these other things, it sweeps everything away. You will get snow and sleet storms where the only significant damage in the public sector is that the lines go out. In the storm of 1976 that was referred to, the only people that applied for disaster relief were the REA's and the public power district.

Now, in Nebraska we have all public power and so the public power districts are a quasi-governmental entity. A district is formed somewhat like a school district and has elected directors. In total we have got $28 million in damages. There were not any claims from counties or cities or other groups for damages because there was not any suffered.

A tornado or a flood takes out a lot of things. But in this connection you have very often, but not frequently, some storms where the principal damage is to take out all the lines.

Senator ZORINSKY. Would the Senator yield?

Senator CURTIS. Yes.

Senator ZORINSKY. Mr. Chairman, in our part of the country it is not unique that a snowstorm with a heavy moisture content, creates a tremendous amount of weight on limbs of the trees which causes them to break. The same thing happens to powerlines during these snowstorms with heavy moisture. The moisture laden ice forms on the transmission lines together with the wind that began an undulation of the wires and a domino effect occurs. Once the poles started snapping they break all the way down the line. This was unique to a given isolated situation, yet was devasting to the people served by that line.

Senator ALLEN. One of those freak storms was it that injured only the co-op lines, is that right?

Senator CURTIS. Injured all the lines. But in our State we do not have any other kind of electricity.

Mr. PARTRIDGE. Mr. Chairman, it is true that area cable is particularly vulnerable to ice storms and from there on goes into Kentucky and Tennessee and is a very heavy loading belt, as they put it, in terms of ice and snow damage.

Senator ALLEN. Yes.

Mr. SHOAF. Mr. Chairman, that is a good question. If I could refer to one paragraph, in my testimony it may be of some help. I think it is important the committee know these farmers and ranchers in northwest Kansas did not request individual assistnace from the Federal Government even though their individual losses were staggering as a result of the devastation of the March 1977 storm. In one Kansas county alone it was conservatively estimated individual personal losses for each farmer and rancher in the county averaged more than $3,000. They lost hundreds of heads of livestock and many miles of fence and other facilities and these are the same people who also suffered the loss of their rural electric system.

Now, my only point is these same farmers did not request assistance from the Federal Government even though livestock and other facilities were lost.

Senator ALLEN. How much loss did you say was sustained by individuals there?

Mr. SHOAF. In one county, Mr. Chairman, it was estimated at $3,000 per rancher.

Senator ALLEN. That was $3,000 per farmer?

Mr. SHOAF. Yes, sir.

Senator ALLEN. Well, now, would they have been eligible to claim disaster relief had a disaster been declared by the President?

Mr. SHOAF. Farmers have their own individuality and this group did not apply.

Senator ALLEN. Well, in other words, there was considerable damage other than to the powerlines?

Mr. SHOAF. Yes.

Senator ALLEN. Up to $3,000 per rancher.

Mr. SHOAF. Yes. But even though there was a large loss they did not apply.

Senator ALLEN. Of course, they did not apply because no disaster was declared by the President. But the point I am making, it seems that you were saying that the disaster was not declared because 2 percent money was available. Actually there was a much greater disaster apparently than just to the powerlines. We hear now as we heard a moment ago that no damage was done except to the powerlines. Now we hear it was $3,000 per rancher.

Senator CURTIS. I would like to correct something.

Senator ALLEN. Yes.

Senator CURTIS. In the public sector it does not take into account the outroads.

Senator ALLEN. Would the rancher not have been eligible had a disaster been declared?

Mr. SHOAF. Frankly, Mr. Chairman, I am not prepared to answer that question.

Mr. PARTRIDGE. I think the Senator is correct.

Senator ALLEN. The staff says most farm disasters are such that the Secretary of Agriculture can declare such emergencies. Now, can he declare it?

Senator CURTIS. I do not think they asked for it.

Senator ALLEN. Would they have been eligible for disaster relief, Mr. Giltmire, had the Secretary asked for it.

Mr. GILTMIRE. What it would be is 5 percent from the Home Administration and other forms of disaster relief.

Senator CURTIS. It is my understanding that in disaster the private individual and businesses are eligible through the Small Business Administration. But grants go only to public bodies.

Mr. WILKERSON. Mr. Chairman, may I point out that I believe to the best of my knowledge in Colorado the Secretary of Agriculture through his jurisdiction and Farmers Home did make available to rural people in eastern Colorado loan provisions.

As I also pointed out to the best of my knowledge again, I do not think any of those funds have become available to any of those people. So that concerns us because we are some 6 months away, nearly 6 months away. But I do believe that some funds will be made available to them on a loan basis in Colorado.

Senator ALLEN. Senator Curtis?

Senator CURTIS. Well, I would like to have Mr. Ballard clarify an important point. By reason of the occurrence of the storm a great many things have to be done. Only a portion of these expenditures are eligible for any kind of an REA loan?

Mr. BALLARD. Yes, sir.

As a matter of fact, in hearing the REA testify this morning and talking about the discretionary authority in the law, in checking with OMB we find only six discretionary loans have been made in the past fiscal year and not any of those are due to storm damage. And I think it also should be pointed out that Congress does place a ceiling on the amount of 2- to 5- percent money that is available. It is not an inexhaustible source of money.

Further, to emphasize as strongly as I can, a 100-percent loan is a misnomer because it is a part and not a total loan for the damages. This committee heard today that the amount of damages would be covered but the resolution that I have submitted to this committee is what is actually being done and therefore you can see that they are loans and they are all going to be that way from the resolutions that we have now for no funds covering approximately half of the total damages and this reduces the systems equity which is in conflict with the wishes of the REA.

Senator CURTIS. Now, in reference to southwest power, about how big an area does that cover; southwest Nebraska?

Mr. BALLARD. I would hate to guess at that.

Mr. WILKERSON. I think it is about 4,000 square miles.

Mr. BALLARD. You might be close there.

Senator CURTIS. It is quite a corner of the southwest Nebraska.

Mr. BALLARD. Yes.

Senator CURTIS. And consumers per line is about half the national average?

Mr. BALLARD. Less than two per mile.

Senator CURTIS. And the average is 4.1?

Mr. BALLARD. Right, sir.

Senator CURTIS. And that their income per year is $94,000?

Mr. BALLARD. $94,000.

Senator CURTIS. And how much of this loan, of this loss according to that statement would not be eligible for a loan?

Mr. BALLARD. Right, $437,000. Over 4 years margins wiped out because, of course, a portion of that loss, they are not eligible for that amount of money.

Senator CURTIS. So the assumption of the disaster agency that here was a problem that could have been cured by loans, even if it did not create an unjust burden because of previous loans, it still would not be an answer to the question, would it?

Mr. BALLARD. Thus far it has not shown up. I do not think at least from these three States anyone did substantiate a 35-year loan at 2 percent for the total amount of damages made for their case. My telephone calls to the systems affected and——

Senator CURTIS. As I sit here and try to recall my experience under the Disaster Agency we had floods in some sections of the State and the terrific tornado in Omaha and the help was in two broad categories; individuals, home operations, or small business or something. All they got was favorable conditions for loans and I think that it is right. I think that when the Federal Government starts to give grants to individuals it is getting into a lot of problems. We did that for a little while. Up in the Pennsylvania flood they amended the Disaster Act that the loans could be forgiven. And of course that immediately became a grant. Congress corrected that. The only people that get the grants are the public bodies and in this particular type of storm where it does not necessarily affect the bridges, highways, and other properties being maintained by the States and counties and townships and cities. They make no recommendation to the Disaster Agency because it is not a part of the disaster that affects them.

I think these statements have been very thorough.

I do not have any more questions.

Senator ALLEN. I want to elicit a little more information in a more or less round-table discussion and discuss some of the problems with the legislation as I see it. I might say that I favor the thrust of seeing that the co-ops are made eligible for disaster relief, irrespective of their good credit, or the availability of loan terms.

Now, what troubles me is we may be knocking on the wrong window here and setting up a procedure whereby we splinter the disaster program and set up an entirely new and separate—you might say novel—system whereby the cooperative would have special entre to the Federal Treasury that others do not have, other public bodies and citizens do not have, because here under this bill all it takes is a declaration by the Governor to get you the loan or help. And I can visualize a Governor wanting to help his constituency and not put the burden on the State treasury, certifying the need for assistance if they have a heavy rain or if the——

Senator CURTIS. Would the Senator yield right there.

Senator ALLEN. Yes.

Senator CURTIS. I believe that it is drawn so the decision is made by the REA administrator.

Senator ALLEN. It is put before him.

Senator CURTIS. That the procedure of having the Governor certify those cases, but that is taken as a channel of public responsibility for transmitting the claim. But due to the fact that the

Governor certifies now is not putting it on the disaster agency or the REA.

Senator ALLEN. I understand.

But you are letting the Governor determine what is the disaster for everybody else. You are providing a brand new system whereby you detour around the disaster declaration procedure and just have the Governor certify it. Then the monkey is put on the back of REA and they could have some discretion in the matter, I imagine. But, where the co-ops come in the Governor says they sustained this damage then make the REA decide to give 2-percent loan money or grant or 5-percent loan money or whatever and it gives preferential treatment as I see it to co-ops above other public bodies. It seems to me I would not feel that you owe it to them to furnish to REA when you have a disaster and it seems to me that what you ought to be doing is to amend the Disaster Act to say that the fact that low-interest money is available to co-ops would not preclude their receiving disaster assistance and it seems to me, too, that this bill would straighten the thing out.

Now, you say, well, OK, you have got an authorization here for replenishment for this money. Well, REA wants to have a good record of achievement. It has a good record of achievement, of sound fiscal management and of paying its way. Yet, here you are not taking this money out of the disaster fund over here, which the Congress has created, and it is working, and it is available, under proper legislation; you get it from REA and hope the Congress will replenish that money.

But that operates against the record, the fiscal record of REA. Why run it through REA when you have a disaster program over here? I would overhaul, as I see it, and I am just making this as a constructive suggestion if you will excuse me, Senator, I would work under the disaster legislation rather than trying to unload this burden on REA and make it apply for money. Then you would have a splintered disaster program. You have got a separate rule for REA that does not apply to other public bodies.

Senator CURTIS. That separate rule was written by the Disaster Agency.

In Omaha they had their tornado. They did not have to prove anything.

Senator ALLEN. Who did not?

Senator CURTIS. They did not have to prove they could not borrow money.

Senator ALLEN. That is the very point I am making.

Senator CURTIS. And that ruling that the Disaster Agency applied then.

Senator ALLEN. That is the point I am making.

If you amend the disaster legislation to say that would not be ineligible because of low-interest money being available then you could do it under the disaster provision.

Senator CURTIS. I do not think the law needs that changing.

Senator ALLEN. It must need changing because you did not get relief, not from the disaster people. There must be something that needs changing.

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Senator CURTIS. I do not think it is the fault of the law. The law has not changed.

Senator ALLEN. Nevertheless they have a directive there and should not take this into consideration. It seems to me that would keep them from doing it. But I hate to see this money—and it is a small amount now—but the whole Nation is being involved, and just go to the Governor and get certified that they sustained some damage and apply to the REA.

I am just wondering how many revolving funds would remain sound and would you not have to be knocking on the door of Congress every year to replace this money?

Mr. PARTRIDGE. Mr. Chairman, I think clearly it would be necessary that the amount granted by REA under the provisions of this bill would have to be made good by a provision of Congress, presumably on an annual basis at the time REA requests went before Congress. Otherwise, there would be dissipated——

Senator ALLEN. But you have got a pot over here available with some legislation directed to it. That is, those are the constructive suggestions I would make on the thing.

Senator CURTIS. Now, in connection with why, while they put some language in there they did not think it was severe enough. I just think they invoked a new rule that does not exist on the ability to borrow money.

This storm was so severe—you just reminded me—Amtrak train was stranded in southwest Nebraska for 2 or 3 days and could not move.

Senator ALLEN. Well, I am not saying that.

Senator CURTIS. And, I just believe there is nothing in the law to justify the agency turning down the request and that is why——

Senator ALLEN. That is the very point. Why not work with legislation directed to them rather than take it out on REA? That is the point.

Senator CURTIS. I do not know that we need any legislation.

Senator ALLEN. Well, we must need some, Senator, or you would not have been turned down.

Senator CURTIS. No, I just think it was an arbitrary action in violation of the law.

Senator ALLEN. But they could not use that if mandated by Congress to not take this into consideration. I am supportive of REA and the reason for that support of REA is one reason, I am skeptical of this procedure of handling it because it would operate against REA generally and put you in the role of coming in every year for a bail out when this money is already available over here in this other pot. In other words, you are trying to set up another pot here to get the funds from when there is already one in existence. So it seems to me that it would be well to direct the legislation at that Federal pocket.

Mr. PARTRIDGE. Mr. Chairman, may I respond briefly? I think my colleagues and I could not agree more with you and Senator Curtis, that Federal Disaster Assistance Administration does have authority and should exercise it. The problem is, as Senator Zorinsky pointed out, they failed to meet their obligation.

On our part we have exhausted our remedies in trying to appeal to them. There were two appeals. I have a response from the Administrator of the Federal Disaster Assistance Administration setting out the sequence of the decision and the basis of the decisions that were made, including the fact they concluded that the systems were not in need and could get loans. And I have only the original, but if it would be helpful to the Chairman, I would be glad to offer this for the record.

Senator ALLEN. Without objection that will be inserted.

[The following was received by the subcommittee:]

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
FEDERAL DISASTER ASSISTANCE ADMINISTRATION,
Washington, D.C., July 6, 1977.

MR. ROBERT D. PARTRIDGE,
Executive Vice President and General Manager, National Rural Electric Cooperative Association, Washington, D.C.

DEAR MR. PARTRIDGE: The White House has asked me to respond to your letter to the President of May 6, 1977, in which you urge reconsideration of the decision not to make major disaster declarations for Colorado, Kansas, and Nebraska as a result of the impact of the March 10–12 blizzard.

As you know, the Governors of the three affected States did appeal my April 11 decision not to recommend to the President that he authorize supplementary Federal assistance under the provisions of the Disaster Relief Act of 1974, Public Law 93–288. My decision not to recommend such assistance was based on the fact that assistance could be made available to the affected areas by the Small Business Administration, the Farmers Home Administration, and the Agricultural Stabilization and Conservation Service, and on the conclusion that existing working capital maintained by the affected rural electric cooperatives, together with loan assistance that could be made available by the Rural Electrification Administration, was sufficient to meet immediate needs. Further, it was determined that the work would not exceed the capabilities of the affected cooperatives.

Following appeals of this decision by Governors Bennett, Exon, and Lamm, representatives of FDAA and REA met with Senators Curtis, Zorinsky, and Pearson, as well as representatives of the affected electric cooperatives. At that time, financial statements, other reports, and comments were presented for additional consideration in support of the Governors' appeals. In addition, we consulted frequently throughout the reassessment process with REA to obtain technical advice and assistance.

Since my original decision not to recommend major disaster declarations for the three States, the REA Administrator has made exceptions to the normal long-term policies. Prior to the exception, the original cost of facilities had to be deducted in determining the amount of money that could be borrowed, making it necessary for the borrower to obtain the remaining funds from other sources. However, under the current exceptions, REA loans may be obtained for the full costs of restorative work and may be repaid over a period of 35 years. Each of the eligible rural electric cooperatives may, if necessary, obtain such a loan to cover the total cost of emergency work and of permanent repairs to its storm-damaged facilities.

While we recognize that repayment of such loans will likely affect the financial status of the cooperatives and result in an increase in electric utility rates to the cooperatives' customers, such increases are not of major disaster proportions when compared to rate increases that have been made in recent years or are pending for other reasons, including higher operating and power costs.

This past winter was unusually severe, both in terms of record below-normal temperatures and the severity of snowstorms and blizzards that have affected various parts of the country. Many individuals, State and local governments, and private, non-profit utilities have experienced increased expenditures because of damage caused by the severe winter weather. From our review of all information available in this instance, I did not consider the situa-

tion to be of sufficient severity and magnitude to warrant a major disaster declaration. Accordingly, as you undoubtedly now know, on May 19, I reaffirmed my earlier decision not to recommend to the President that he declare a major disaster in these instances.

I regret that my response could not be more favorable.

Sincerely,

THOMAS P. DUNNE,
Administrator.

Senator ALLEN. Thank you, gentlemen.

Now, I would like to ask the question of Mr. Ballard, Mr. Wilkerson, and Mr. Shoaf:

Since the storm have all or any of you found it necessary as a result, direct result of the losses that you sustained and the money that you had to borrow been forced to increase rates to your customers, not only added costs to electricity, but attributed directly to this loss?

Mr. BALLARD. Yes, Mr. Chairman.

Attached to my statement are the proposed rate increases because of the storm damage to the systems in Nebraska.

Senator ALLEN. None up to now?

Mr. BALLARD. Because of the storm?

Senator ALLEN. Yes, sir.

Mr. BALLARD. No, but we will be once they acquire the loan and spend money out of the equities, they will have to cover it out of the increases in rates.

Senator CURTIS. There is a lag in time there.

Senator ALLEN. What about you, Mr. Wilkerson?

Mr. WILKERSON. Mr. Chairman, in a situation of the five cooperatives in the State of Colorado, two of them were the most severely damaged and testified before our Public Utilities Commission in May that they submit rate applications in September or October with request for rate increases. These applications would include what they feel they have got to have to cover storm damages. As Mr. Ballard stated, they do not really know what those dollars will be now. In the case of one cooperative they say it will range from 3½ to 4 percent because of the storm. In the case of the one hardest hit it will range 7 to 8 percent because of the storm. But this is still not completely determined.

Senator ALLEN. Mr. Shoaf?

Mr. SHOAF. Mr. Chairman, attached to my testimony there is a figure that I think you will be interested in. In the one that was hit hardest there is an estimate that it will take $5 per month addition to the bill just to take care of the storm damage for the next 5 years.

Senator ALLEN. Thank you very much. I apologize. That information was contained in your statement but we did not give you an opportunity to read the statement. So thank you for giving us that information.

Our next witness is Mr. Dunne, Administrator of the Federal Disaster Assistance Administration. I will direct the question to him, if he were directed by the Congress not to take into account the availability of low-interest money would he then have taken a different view of the situation.

Mr. BALLARD. Mr. Chairman, I see what you are saying. But it appears to me there has to be some sort of directive like this. Because as it stands now when this Agency was taken out from under

Congress and staff people make judgments now, and Congress cannot do anything about it. That makes them a separate strong entity from Congress and I think probably our only alternative, everything we tried to do is to attempt to enact some legislation to make them answerable and I think that's what this legislation will do.

Senator ALLEN. Thank you very much.

Mr. PARTRIDGE. Thank you very much for your courtesy in hearing us.

Senator ALLEN. Mr. Dunne, please.

Mr. Dunne, we appreciate you coming before the subcommittee.

We note your statement is quite short and we would be delighted to hear from you and I am sure there will be questions to be asked.

STATEMENT OF THOMAS P. DUNNE, ADMINISTRATOR, FEDERAL DISASTER ASSISTANCE ADMINISTRATOR, HUD

Mr. DUNNE. Thank you, Mr. Chairman.

I am here at your request this morning to discuss the bill, S. 1729. This bill proposes to amend the Rural Electrification Act of 1936 in order to permit the use of the Rural Electrification and Telephone Fund to repair and replace certain electric power and telephone lines and equipment damaged or destroyed in rural areas by natural disasters.

FDAA strongly opposes the bill for several reasons.

First, it has the immediate effect of overturning the President's decision not to declare a major disaster for the purpose of providing the type of assistance which the proposed legislation authorized retroactively. To this extent, the bill nullifies the latitude which Congress has given the President in the Disaster Relief Act of 1974 to determine whether a situation is of sufficient severity and magnitude to justify the exercise of the extraordinary authorities in that act.

Second, it is fundamental to the philosophy of the Disaster Relief Act that its provisions are for use in those situations where the regular and emergency programs of Federal agencies are clearly not sufficient to deal with a disaster. The proposed bill allows the administrator of REA to "second-guess" the President's decision that normal Federal programs are adequate to meet the situation. Specifically regarding the problems which this bill seeks to address through its retroactive provision, it has been determined, and reaffirmed, that the current authorities of the REA are adequate to meet the needs generated by the early spring storm.

Third, the bill furthers the undesirable fragmentation of Federal disaster assistance authorities. This tends to make the effective and efficient management of these programs more difficult.

For the reasons which I have outlined, FDAA would oppose the enactment of S. 1729. I will be happy to address any question you may have.

Senator ALLEN. Thank you, Mr. Dunne.

One sentence in your statement caught my attention. The proposed bill allows the Administrator of REA to "second-guess" the President's decision that normal Federal programs are adequate to meet the situation.

I do not see any second guessing there because I assume that the REA is one of those normal Federal programs that you are talking about.

Mr. DUNNE. That is correct.

But if the President determines that a situation is not of sufficient severity or magnitude to warrant major disaster declaration then under this bill the REA administrator, even though the President does not find a situation bad enough to use his extraordinary authority, may say, "I will now provide the money." So, in effect, he is second guessing the President, when a situation is not large enough or severe enough to warrant a declaration of major disaster area.

Senator ALLEN. And based apparently on the fact that this low rate interest money is available, is that correct?

Mr. DUNNE. Partially correct.

The other thing is when the President addresses the criteria stated in the law, severity and magnitude, he looks at the total impact, not just the impact on utilities. How does it affect all the communities and all the people in the area that the Governor has made a request for? Utilities are considered. But the total impact, the human suffering and the losses are also considered. And the President's judgment has got to be based on total impact and not just on a special group that is looking for some money to overcome or alleviate their problems.

Senator ALLEN. Well, suppose there might be widespread loss in the private sector that would not have been eligible for a grant. May that have—coupled with the co-ops who do have access to cheap money, would that have justified the President in declaring a disaster?

Mr. DUNNE. Well, the President declares on the average of 40 to 50 major disasters a year.

Disasters will generally affect individuals in terms of housing, employment, losses to businesses, small and big, and, depending on the type of disaster, insurance will be involved. But for instance, tornados do not as a general rule knock out the infrastructure; floods do. The flood that we are facing in the area of Johnstown, Pa., affects the sewers, the water, the electricity, the roads, and the bridges, but also affects thousands and thousands of individuals. And I am not too sure at this hour, but that these people may not have a place to reside for a long period of time.

So they may have some problems. We hear about their loss of jobs, Bethlehem Steel where 11,000 to 12,000 people are out of a job. The mines are flooded out. So a disaster affects human beings in terms of their normal living patterns. It affects the normal conduct of business. It affects the local and State governments in terms of how they carry on their normal services. Plus, it also affected utilities in Pennsylvania. So it is difficult to answer hypothetical questions.

Senator ALLEN. I understand.

Mr. DUNNE. But generally I can state when the President gets the information provided by my agency through the Secretary he looks at the total impact, not just a specific industry or group.

Senator ALLEN. All right.

Now, suppose there had been a sufficient disaster in various sectors to the extent that the disaster area was proclaimed by the President, would you then have felt justified in turning down the application for grants by these public bodies by reason of the fact that they had low interest rate loans available?

Mr. DUNNE. Well, it is clear that had the declaration been granted by the President that the utilities in question could be eligible for restoration and repair costs.

Senator ALLEN. Even though they had low interest rate loans available?

Mr. DUNNE. They could be eligible.

Now, the President could under his authority, which is discretionary authority, limit the type of assistance to be made available. Grants have been made to utilities in the past in a number of cases in varying degrees. Now, we would not as a general rule make them turn to REA to borrow money when the severity is such to warrant a major disaster declaration.

Senator ALLEN. So actually then if there had been a general disaster where public and private sectors sustained large damage, and the disaster area had been proclaimed by the President then these co-ops would have been eligible for grants irrespective of their credit position or the availability of low-interest-rate loans?

Mr. DUNNE. It could have been, yes sir.

Senator ALLEN. Well, could have been. Would there have been?

Mr. DUNNE. I said could have been. It is not mandatory. But I would say as a general rule they would have been.

Senator ALLEN. Yes.

So actually what the essential ingredients that was missing here was a general widespread loss by the areas involved?

Mr. DUNNE. That is correct.

The total impact was evaluated and found not to be of such severity and magnitude as to warrant a major disaster declaration.

Senator ALLEN. In other words, you have been here listening to the testimony and my suggestion that a possible way out might be to say that the disaster agency could not take into account the availability of low-interest-rate money, that would not solve the situation then because you do not take that into account after the declaration had been declared, is that correct?

Mr. DUNNE. That is correct.

If it has been declared they can become eligible.

Senator ALLEN. And then actually under the law these co-ops where no disaster area has been proclaimed by the President were in fact not eligible to apply?

Mr. DUNNE. That is correct.

Only the President can make a declaration. We have no funds authority to apply funds without a declaration.

Senator ALLEN. Well, now, was a decision made by your agency not to declare, or not to recommend the declaration of a disaster based on the availability of loan funds at low-interest rates or was it based on the lack of severity of the natural disaster?

Mr. DUNNE. Severity and magnitude were missing ingredients. That is the first criterion of the law. Second is that we look to other governmental programs, and we do this as a matter of course, to

see if any other authority in the Federal Government can help the people without a declaration. We turned to the REA as technical advisors who are expert in this area and who have had many meetings with my staff to obtain background information. We recommended to the President that REA loans were available and we felt that severity and magnitude were missing.

I might add that in asking my staff about the availability of help to farmers and individuals, I inquired about the SBA and Farmers Home Administration loans. Colorado has one SBA loan pending for $1,500. Farmers Home loans total about $942,000 and there are about 33 applications outstanding. In Kansas, when SBA and Farmers Home did a survey, they did not find that the situation met the minimum criteria that the Secretary of Agriculture or the Administrator of SBA had established to trigger the emergency loan programs. So the loan programs were not approved.

So the situation is pretty clear where the individuals and businesses could not even qualify for less than major disaster status, and from the limited SBA loan amounts where they did declare, that we are not talking about a major disaster situation.

Senator ALLEN. Thank you very much.

Mr. DUNNE. But we also look at the possibility of long-term unemployment, and whether there are going to be food shortage problems. We look for a variety of conditions. Of course this winter was an unusual one not only in the Plains States and the Western States but over the Eastern part of the country as well, and we had an awful lot of requests to meet energy costs for people, and snow removal costs for local governments because their budgets were strained. Most of these requests were turned down because we do not think that the President's disaster authority is intended to try to meet everybody's problems in this country.

Senator ALLEN. Has your policy changed with respect to REA cooperatives?

Mr. DUNNE. No, sir.

Senator ALLEN. Well, now, the grants that you have made in the past, how many grants have you made in the last, well, since March?

Mr. DUNNE. To who?

Senator ALLEN. Since this storm in March, how many grants to co-ops have you made?

Mr. DUNNE. Oh, let me see. Probably a handful, three, four, five, six. These generally have been in areas that have been hit by flooding.

I do not have the information but we could supply it. They are in the declared disaster areas.

Senator ALLEN. Have you turned down any co-ops in a declared area on the ground that they had other funds available?

Mr. DUNNE. No, sir.

Senator ALLEN. All right.

Mr. DUNNE. We have only had the authority incidentally to assist co-ops and utilities since 1974. We did not have that previously.

Senator ALLEN. But if a disaster is declared by the President the co-ops share just like other public bodies?

Mr. DUNNE. That is correct, sir.

Senator ALLEN. And there is no change in policy along that line?

Mr. DUNNE. That is correct.

Even though I am not sure that is necessarily healthy but that is what the law provides and that is what we do. We carry out the intent of Congress.

Senator ALLEN. Senator Curtis?

Senator CURTIS. Mr. Dunne, you say that this was turned down because the storm was not severe enough?

Mr. DUNNE. Yes, sir.

We said in our recommendation, and the President concurred, that this storm was not of such severity or magnitude that the response could not be met through other means.

Senator CURTIS. You did not tell these people that?

Mr. DUNNE. No. It can be met effectively by——

Senator CURTIS. Yet you say that you cannot do things until the President declares and you are the Agency that recommends to the President to declare, is that right?

Mr. DUNNE. That is correct.

Senator CURTIS. And you recommended that he not declare this a disaster situation, did you not?

Mr. DUNNE. Yes.

Senator CURTIS. And you based it upon the ground the REA could get liberal loans, did you not?

Mr. DUNNE. It was not severe enough, of magnitude enough to warrant disaster assistance under this act, and an effective response could be provided through other means.

Senator CURTIS. Come down to it. Is it not a fact you made your decision and or announced it on the basis that they had liberal loans available?

Mr. DUNNE. One criterion to be met is severity and magnitude and second is the fact that response to the need could be provided through REA.

Senator CURTIS. Now, the history of the program has never been to inquire into a city or other unit of Government whether or not they have the ability to borrow money?

Mr. DUNNE. On a local government the impact is measured when the impact is there. Local governments have no authority as a general rule to provide temporary housing or loans. SBA loans——

Senator CURTIS. I am talking about damage to the public institutions. You do not raise a question as to their ability to borrow money?

Mr. DUNNE. We do make them commit a reasonable amount of the funds.

Senator CURTIS. I have here in my hand a letter signed by you, Thomas P. Dunne, that is you?

Mr. DUNNE. Yes, sir.

Senator CURTIS. Here is what it says. And this is to Mr. Partridge:

As you know, the Governors of the three affected States did appeal my April 11 decision not to recommend to the President that he authorize supplementary Federal Assistance under the provisions of the Disaster Relief Act of 1974, Public Law 93–288. My decision not to recommend such assistance was based on the fact that assistance could be made available to the affected areas by the Small Business Administration, the Farmers Home Administration, and the Agricultural Stabilization and Conservation Service, and on the conclusion that existing working capital maintained by the affected rural cooperatives—

Senator CURTIS. That is their working capital?

Mr. DUNNE. Yes, sir.

Senator CURTIS. And one has an income of $94,000 a year.

. . . together with loan assistance that could be made available by the Rural Electrification Administration, was sufficient to meet immediate needs. Further it was determined that the work would not exceed the capabilities of the affected cooperatives.

There is not a word in there, Mr. Chairman, to the effect that the storm was not severe enough. The reason was that they could take care of it themselves. And basically that was the reason you turned it down, was it not?

Mr. DUNNE. The fact they can take care of it themselves means it was not severe enough or of significant magnitude.

Senator CURTIS. Of course, you were incorrect in that.

Mr. DUNNE. That is a matter of judgment. I think I was correct in my recommendation.

Senator CURTIS. Now, what authority do you have to deny to them a grant because of the fact they can get liberal loans?

Mr. DUNNE. I have authority only to make a recommendation to the President.

Senator CURTIS. Well, I know that.

Let us stop beating around the bush.

Mr. DUNNE. The President very specifically looks at these recommendations though.

Senator CURTIS. The President of the United States relies on other people.

Mr. DUNNE. Right.

Senator CURTIS. You are the President of the United States so far as this program is concerned.

Mr. DUNNE. I do not think so.

Senator CURTIS. I think it is. I think it is and I think that if you had any idea of turning this down on the ground that the storm was not severe enough it would have been set forth and you would have said so in this letter.

Mr. DUNNE. Senator, the fact that these people could get funds from other sources made it such that they could get help to solve their own problems. This is what we are getting at.

Senator CURTIS. You tell me of one grant that has been turned down to any city in the United States, any county on the ground that they could borrow money?

Mr. DUNNE. It is not necessarily a matter of a local government borrowing money because they have debt limits often set by State law. And we recommended that about 40 percent of the requests in the last year be turned down, mainly because the State and local levels had the capacity to deal with the situation. Just because some roads are damaged does not mean a major disaster. Just because some public buildings, or structures are damaged does not mean a disaster. I have looked at the records quite recently and in the last 4 years we have had about 308 requests and about 202 have been declared. So you can see that the denial rate is in the 40 to 45 percent range.

Senator CURTIS. I am saying where there is a finding that it is a major disaster, where have you ever turned down a grant because of the ability of the grantee to borrow money?

Mr. DUNNE. We have never refused assistance to a government based on its ability to borrow money. We have, under the statute, made local and State government provide funds to help alleviate the situation. The Federal Government, while it is authorized to provide 100-percent restore and repair costs is not providing every nickle that is lost by a local or State government even though the law is getting sufficiently liberal to cause us some concern.

Senator CURTIS. I think, Mr. Dunne, the fact remains is that you were erroneous, that you erroneously recommended to the President to turn this down on the ground they could get two percent liberal loans and I think the fact remains you have no such authority to do that under the law.

Mr. DUNNE. I think I do. We turned it down because of a lack of severity and magnitude and we showed them where they could get money from REA.

Senator CURTIS. What facts do you cite to counteract what they say as to the severity of the storm? Is it severe when the average farmer loses $3,000?

Mr. DUNNE. It depends on the farmer. I find it interesting that the number of applications made to the Farmers Home Administration is minute.

Senator CURTIS. You do not know those people out there and I do.

But is it a severe storm if a train cannot move for 3 days, is it a severe storm when there are lives lost? Now, up until today I have not gone into those details at all. The fact remains you turned this down on the basis that the REA loans some cheap money.

Mr. DUNNE. People do help themselves, yes. That is correct. But it was also lack of severity and magnitude and the fact they could help themselves by borrowing money, that is correct.

Senator CURTIS. And what source did you turn to to ascertain the severity and magnitude of the storm?

Mr. DUNNE. We make the recommendations ourselves.

Senator CURTIS. Where did you gather your information?

Mr. DUNNE. The technical information was provided by REA in a great number of meetings between the REA and my staff. We do not ask other Federal agencies to recommend to us one way or the other, otherwise, I think we would run into a situation where the agencies would be advocates for all kinds of interest groups, which would be intolerable.

Senator CURTIS. These applicants did contend that the storm was of severe magnitude?

Mr. DUNNE. Well, we run into cases, Senator, where individuals say, "We have a disaster," because they did not buy insurance on their home. But it is not up to the applicant to decide on severity and magnitude.

Senator CURTIS. All right.

But you are the fact gathering Agency for this and you make recommendations and what I want to know is did you gather any information or have any information submitted to you to disprove the claims of these applicants?

Mr. DUNNE. In terms of their losses?

Senator CURTIS. No. As to severity of the storm?

Mr. DUNNE. In terms of what their losses were, what it would cost to repair.

Senator CURTIS. Did you receive any evidence repudiating the facts set forth in their application?

Mr. DUNNE. I do not think it was a matter of repudiation.

Senator CURTIS. Well, in conflict with it. Did you receive any evidence disputing the information set forth in their claims?

Mr. DUNNE. I do not think it was a matter of the facts being in dispute so much as the way we evaluate the situation as opposed to the evaluation of somebody who wants free money from the taxpayers.

Senator CURTIS. Well, that comes back to the point. You turned it down because you thought they could get low-cost loans.

Mr. DUNNE. The same way we turn down other requests from Governors because we feel that local and State governments can solve some of their own problems without running to the Federal Government all of the time. And the fact that REA had low-interest loans and could provide the relief.

Senator CURTIS. Yes.

But I think it is true that you have not turned down other claims for the reason of ability of the grantee to borrow money.

Mr. DUNNE. We have turned them down on the basis of their ability to take care of themselves, whether it is by grants from other agencies or by restructuring their own budgets. And it works different ways. The fact REA's borrow money and is conducting a business operation, that they could borrow money from REA was sufficient for them to be able to effectively respond to their own problems and that is one of the criteria spelled out by Congress in the law.

Senator CURTIS. Well, I do not think the Congress has put anything into the law that gives you authority to turn down a grant that is otherwise qualified on the ground the grantee can borrow money.

Mr. DUNNE. It is not a matter of my turning them down. It is a matter that we did not find the severity and magnitude and the fact REA has a loan program at a cheap interest rate.

Senator CURTIS. You were in an enviable position. You were a bureau from which nobody could appeal.

Mr. DUNNE. Yes, they could and did appeal.

Senator CURTIS. To whom?

Mr. DUNNE. To us. And it went back to the President and the appeal was turned down.

Senator CURTIS. The fact is the only appeal that was open to the people who made the first decision and I think that you should have——

Mr. DUNNE. It seems to me, Senator, if the Congress wants to give the President extraordinary authority then the decisions made in the use of that authority really ought not to be second guessed. I do not think you can run disaster relief by formula or by listening to special interest groups. The original authority given the President 25 years ago has grown in terms of the benefits provided, which certainly encourages appeals if the benefits are not provided. The appeal does go back to the President personally for his determination.

Senator CURTIS. Well, I see it is useless to take any more time.

The chairman has been very gracious in holding these hearings. But I think your letter speaks for itself and I think the word that went out to these REAs speaks for itself and the fact remains that they were denied participation in a broad national program on the ground that Congress has never written into the law on the ground that they could borrow money and I think the facts recited here today were true when they were written.

And also, I think they are true today, that there was a very severe storm, that you never received evidence to counteract the claim that this was a great storm, that none was submitted to you, that they cannot borrow the money to meet their full needs and their financial condition, at least that one district, even if you applied a rule that you do not apply to anybody else and they still would have been eligible.

Mr. DUNNE. Senator, these co-ops did a lot better than some of the local governments who had above normal snow fall in the midwest this year and came to the Federal Government and said, our snow budget is strained. Declarations were not made for that, and they could not borrow money necessarily; they just had to readjust their budget. Maybe they did borrow. They did not get any Federal relief.

Senator CURTIS. Their budget related primarily to removing snow from the streets.

Mr. DUNNE. It costs money.

Senator CURTIS. A lot of things cost money. But that is not a disaster that destroys things. That is a regular maintenance cost.

Mr. DUNNE. It is not a regular budget cost if you don't budget enough to cover it.

Senator CURTIS. Whether you are budgeted for it or not does not make any difference. Minneapolis has this every year.

Mr. Chairman, I have no further questions.

Senator ALLEN. Thank you very much, Mr. Dunne.

Mr. David C. Fullarton of the National Telephone Cooperative Association. He is not present but he is being represented by Mr. Goss, I believe.

Mr. Goss, we have the problem that we have mandated by Senate rules not to be going beyond 2 hours from the time the Senate goes into session. It went into session at 9:30. That will leave you about 20 seconds under the strict application of the rule. We are going to fudge a little bit and allow your statement to go in and be introduced. It is 14 pages long and I believe it would be infringing on the rules if we were to hear the complete statement.

Tell us in brief just what your interest is in this legislation and your statement will be received for the record.

I also have a statement here by Mr. John C. White from the Department of Agriculture, giving the views of the Department of Agriculture on the bill.

Senator ALLEN. We are putting Mr. White's statement into the record. Also, the statement of David C. Fullarton will be included in the record.**

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*See p. 3 for the statement of Mr. White and p. 61 for the prepared statement of Mr. Fullarton.

STATEMENT OF DAVID C. FULLARTON, EXECUTIVE VICE PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION, PRESENTED BY FRED GOSS

Mr. Goss. Mr. Chairman, a few moments ago you gave a summary of my statement as well as I could so I can be very brief, as I had intended to be.

The National Telephone Cooperative feels that——

Senator ALLEN. I did not realize I was reading from your statement.

Mr. Goss [continuing]. That this proposal in S. 1729 is not the best way to meet the problem created here.

We are concerned that the rural electrification program and the borrowers it finances would be adversely affected by taking a program very successful for 40 years now as a loan program and converting it in some manner into a combined loan and grant program.

We feel the proper approach in this case is investigation or review or amendment, if necessary, of the Federal Disaster Assistance Act to determine why the facilities of that agency were not made available in an instance where it seems clearly to have been indicated.

NTCA fully supports the 1974 amendment to the act which established eligibility for electric and telephone co-ops for disaster assistance. From our information, which is not as complete as the other witnesses here today, it seems that the disaster that occurred this past March in the Western States appeared entirely sufficient to warrant assistance being granted.

We feel that while we cannot support amendment of REA in terms of S. 1729 to provide grants, that Congress should thoroughly investigate the circumstances which resulted in assistance not being made available. Again, to determine what made this change in their decision between the making of grants in 1976 and the 1977 decision to not make grants available.

Obviously, from the record, it does seem the availability of REA funds seems to have been a particularly deciding factor. Whether that is provided in the FDAA Act or not, we think this is the avenue to be taken.

We strongly continue to support the feeling that, considering the very rural areas our telephone members and the electric co-ops service, when they are subjected to natural disasters they should have access to necessary grant funds, rather than making their rate bearers pay the cost of rebuilding the system through taking new REA loans.

We would be happy to cooperate with the committee any way we can to provide information on the damage or situation that involved our telephone members and to assist you in pursuing this course.

Senator ALLEN. Thank you very much.

You represent the telephone companies, co-op as well as private, is that correct?

Mr. Goss. Yes sir. We have some private commercial REA members but our principal membership is the 240 rural telephone co-ops.

Senator ALLEN. I believe we have about 45 or 50 private telephone companies, rural telephone companies in Alabama and only one or two of the co-ops; is that correct?

Mr. GOSS. I believe there are three, sir.

Senator ALLEN. And all of your companies, whether co-op or private companies can borrow from REA?

Mr. GOSS. All of our members would be eligible.

Senator ALLEN. I do not mean that they do, of course.

Mr. GOSS. We have one or two that have done so.

Senator ALLEN. I know. But they are eligible.

Mr. GOSS. Yes.

Senator ALLEN. Do you feel this would be an ill-advised burden on the REA revolving fund?

Mr. GOSS. It appears to me if any significant amount of grants were to be made from that fund it would be necessary for Congress to appropriate more moneys into it and we had hoped very much in 1973 when those amendments were passed, it would not be necessary to come back to Congress for any further appropriation for the revolving fund, that it could be carried on entirely out of the assets placed in it when the Congress created it.

Senator ALLEN. And you feel it would not be the best thing for the REA to come each year to Congress to ask for replenishment of the grant money that they had paid out?

Mr. GOSS. We are happy as an organization, in not involving our members in seeking additional appropriations each year. We feel that one of the strongest factors that has gained support for REA telephone program increases of over five times in annual volume in the 9 years that I have been working for the association has been the fact they have been willing to support increases in interest rate they pay from 2 percent to 5 and 6½ percent and 8. The fact is, however, it is entirely a loan program and all these moneys are repaid and now with a decreasing amount of interest subsidy. That is what I like to call the political attractiveness of the program that is what we are afraid would be compromised in becoming a grant program.

Senator ALLEN. Senator Curtis?

Senator CURTIS. Based upon your investigation and what you have heard today in reference to the losses in these three States after last March, you state that you think that it was such severity that they should have been able to be eligible for grants?

Mr. GOSS. Senator, we have members who are very much similar in character to the electric cooperatives and I can tell you from my experience if anyone of them suffered losses of the magnitude we have heard discussed here today they would have to get an additional loan to finance repairs and add to their debt burden.

Senator CURTIS. Do you have any doubt in your mind they were turned down because of the claim that they could get liberal and low interest loans?

Mr. GOSS. Well, Senator, I do not want to dispute the FDAA administrator's statement that that was not the reason. But it does appear to my mind that the sources of financing from REA were available and was certainly a determining factor in his decision.

Senator CURTIS. Yes. And you do not believe that should have been the case?

Mr. Goss. Insofar as I understand the provisions of the Disaster Assistance Act, it was not set up only to make funds available to borrowers who could not afford it any other way; that the fact that there were other sources available should not preclude electric cooperatives, in this case, from getting disaster assistance.

Senator CURTIS. Or any other applicant.

Mr. Goss. Or any other applicant.

Senator CURTIS. Thank you.

Mr. Chairman, we are exceedingly grateful to you for this hearing.

Senator ALLEN. Thank you very much. This is a problem that does need to be addressed.

Senator CURTIS. I think we have made a good case and have convinced everyone without authority, except for the one who would be able to do something about it.

Senator ALLEN. All right.

Thank you very much.

That completes this hearing and we appreciate everyone's attention.

[Whereupon, at 11:42 a.m., the subcommittee adjourned, subject to call of the Chair:]

APPENDIX

STATEMENT OF HON. EDWARD ZORINSKY, A U.S. SENATOR FROM NEBRASKA

Mr. Chairman: I wish to commend the distinguished Senator from Alabama, Senator Allen, for holding hearings on S. 1729 introduced by my colleague from Nebraska, Senator Curtis, which is designed to provide the administrator of the Rural Electrification Administration with authority to use monies from the revolving fund to assist rural electric cooperatives and telephone companies in the replacement of damaged or destroyed facilities due to natural disasters.

This bill is a direct response to severe problems which arose when the Federal Disaster Assistance Administration refused to approve disaster applications to provide financial assistance to REA's in western Nebraska, eastern Colorado, and northwestern Kansas when these areas were hit by a late winter snow and ice storm in March of this year. The FDAA denial of these applications submitted by these cooperatives, even though evidence of destruction and need were overwhelming, left our cooperatives in a financial crunch. The extremely heavy monetary burden for repairs and replacement of damaged facilities could only be borne by the consumers themselves. These costs would be placed on farm and farm related people who are already suffering the hardships of very depressed commodity prices in these agriculture areas. I believe if we are to allow these people's request for assistance to go unheeded, it would be a grave injustice to the hardworking people of these affected states and reinforce the already widespread opinion that the Federal Government lacks understanding and concern for the needs of rural America.

The bill this subcommittee is hearing this morning is not designed to circumvent or double up on existing disaster programs but is intended to be used as an alternative source of financial assistance to REA's and telephone companies. S. 1728 will allow the Administrator of REA to review the circumstances of the disaster and if he so determines provide financial aid. This would normally be done after FDAA has refused assistance under their authority. This bill will provide our rural electric cooperatives and telephone companies with an alternative source of aid and the knowledge that should FDAA be unresponsive to their needs, there if another course of action to pursue.

Mr. Chairman, I thank you and the members of this body for the opportunity to speak in support of S. 1729, and hope this subcommittee will expeditiously and favorably report this bill.

STATEMENT OF HON. JAMES B. PEARSON, A U.S. SENATOR FROM KANSAS

Mr. Chairman, I wish to indicate my support for S. 1729, a bill which would amend the Rural Electrification Act of 1936 in order to permit the use of rural electrification and telephone revolving funds to replace electric power and telephone lines damaged or destroyed in rural areas by natural disasters.

Mr. Chairman, in March of this year a very severe snow and wind storm struck Northwest Kansas, Northeast Colorado, and Southwest Nebraska. Several rural electric cooperatives in the three states were hit very hard by this storm. Damage was in the millions and, frankly, I am quite concerned that those co-ops will not be able to cope with the resulting financial losses. Their only alternative will be to increase utility rates to consumers. I can attest to the fact that in Northwest Kansas electric rates are already exceptionally high. In general, Mr. Chairman, the disastrous impact of the storm was significant in all facets of rural life in the affected six Kansas counties.

Mr. Chairman, in 1974 Congress acted to make non-profit utilities eligible for federal disaster funds. Rural electric cooperatives are such non-profit pri-

vate utilities and are eligible for federal disaster assistance grant funds after they are so declared by the Federal Disaster Assistance Administration. Unfortunately, even though Kansas, Colorado, and Nebraska joined together in attempts to get normal disaster assistance through FDAA, they were not successful. In my opinion the Administration made a serious mistake in not making the necessary declaration so that the respective states could receive their badly needed assistance.

In any event, Mr. Chairman, it is obvious that a problem exists regarding the ability of rural electrics to secure disaster assistance when they need it. I think Senator Curtis' bill, which provides an alternative source of funding for rural electrics in times of disaster, is an option we need to explore on our way toward solving the problem. Certainly the Rural Electrification Administration is familiar with the typical financial operations of a rural electric cooperative. Perhaps the best way to assure that rural electrics have access to adequate funds to meet their requirements for repairing disaster damage is to create an additional funding source through the Rural Electrification and Telephone Revolving Fund. Although the concept may need some refinement, I feel that it is basically sound.

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Washington, D.C., July 21, 1977.

DAVID A. HAMIL,
Administrator, Rural Electrification Administration,
Washington, D.C.

Re S. 207.

DEAR MR. HAMIL: Senator Bartlett introduced S. 207 on January 12, 1977. The bill addresses a problem of communities previously served with firm power by the Southwest Power Administration and other similar federal power distributors. These power distributing authorities are presently changing their policies to bring their distribution and sales patterns into a line with the actual cost and availability of electric energy.

The communities affected still need a constant power source, and therefore, must turn to commercial utility companies. This has resulted in the need to invest in local facilities which require either the sale of municipal bonds or federally guaranteed loans.

S. 207 provides access to federal loans for communities that do not have bonding capacity. The following guestions pertain to the proposed authority and other possible alternatives:

(1) What would the impact be on the Rural Electrification Administration Guarantee Program of this expansion in the following areas—(a) Financing; (b) Staffing?

(2) What would the impact on the Rural Electrification Administration be if the loans were made out of Farmers Home Administration funds or Rural Development Community Facilities funds, with the proviso that REA would administer the provisions of the agreement?

(3) What terms of the present legislation need to be amended to make it more workable?

Your assistance in this matter is greatly appreciated.

Sincerely,

HENRY BELLMON.
DEWEY F. BARTLETT.

U.S. SENATE,
Washington, D.C., June 29, 1977.

Mr. THOMAS P. DUNNE,
Administrator, Federal Disaster Assistance Administration, Department of Housing and Urban Development, Washington, D.C.

DEAR MR. DUNNE: Nine members of the U.S. Senate are deeply concerned about the policies of the Federal Disaster Assistance Administration. We are concerned about how you and your staff interprets what many of us understood was a law to relieve suffering and disaster.

It seems to us that too much restraint is used when there is an obvious disaster. All nine of us have had experiences with FDAA decisions that leave us confused, amazed, and surprised. The denial of disaster assistance to the victims of several storms in our respective states makes absolutely no sense

to us. We believe the problem does not lie in the legislation but with those who are administering it.

We request assistance from you in two matters. First, we ask an immediate reconsideration of your decision not to recommend to the President that he declare a major disaster declaration for a very severe snow and ice storm that struck Kansas, Nebraska, and Colorado on March 10, 11, and 12, 1977. We believe your decision was incorrect, does an injustice to the citizens in the storm area, and does not carry out the intent of the law. We believe the storm was of sufficient severity and magnitude to warrant a major disaster declaration. Rural electric cooperatives need the assistance of the FDAA. The other sources of assistance available to the REC's are not adequate nor equal to what other REC's have obtained from FDAA as a result of similar storms.

Second, we ask that you review your major storm declaration process to see if it can be changed and improved to conform with the wishes of Congress. The process of disaster declaration is not acceptable to us. After you have reviewed your regulations we would appreciate a meeting with you so the process could be outlined to us and we could also ask what questions might still be unanswered.

We enclose a copy of the Congressional Record for June 24, 1977, pages S10664–S10666 which further explains our position on this matter.

Sincerely,

Bob Dole; James Pearson; Carl Curtis; Edward Zorinsky; Charles Mathias; Birch Bayh; William Proxmire; Gary Hart; Floyd Haskell.

Enclosure.

[From the Congressional Record—Senate, June 24, 1977]

UP AMENDMENT No. 531

Mr. DOLE. Mr. President, I send to the desk an unprinted amendment for myself, Senator CURTIS and Senator ZORINSKY, and I ask for its immediate consideration.

The PRESIDING OFFICER. The amendment will be stated.

The legislative clerk read as follows:

The Senator from Kansas (Mr. DOLE), for himself and Mr. CURTIS, Mr. ZORINSKY, Mr. HASKELL, Mr. PEARSON, and Mr. HART proposes unprinted amendment No. 531.

On page 9, line 24, before the colon insert the following: "of which not less than $19,370,000 shall be available for damages resulting from the disaster caused by a blizzard in Colorado, Kansas, and Nebraska, on March 10, 11, and 12, 1977".

Mr. DOLE. Mr. President, I have discussed this amendment with the floor manager of the bill and understand that perhaps it could be subject to a point of order, like many other provisions in the bill where points of order have not been raised, and the Senator from Kansas is looking at those at this time.

On March 10, 11, 12, 1977, a very severe blizzard struck northwest Kansas, eastern Colorado, and southwestern Nebraska. One hundred-mile-per-hour wind-driven snow caused great destruction of personal property and human suffering throughout the area. Rural roads were blocked with 15-foot snowdrifts; electric lines were shredded, poles were snapped off, and crossarms were shattered. The facilities to deliver electric energy to consumers in the affected area were completely demolished.

Work to restore electric lines began even before the storm abated. Hundreds of line repairmen along with equipment and supplies were moved into the stricken area, but it was still more than 2 weeks before electric service was restored to all consumers in northwest Kansas, parts of Nebraska, and Colorado. It was even longer, I understand, in parts of eastern Colorado.

Following the devastating storm, the Governors of all three States toured their respective affected areas by air and ground. Each Governor was shocked by the devastation and declared his State to be in need of Federal assistance. Proper and detailed requests were prepared and presented by all three Governors' offices to the Federal Disaster Assistance Administration requesting Federal assistance grants to assist in the restoration of electric service.

Through an act of the U.S. Congress, in 1974, nonprofit utilities became eligible for Federal disaster assistance funds. Rural electric cooperatives are such

non-profit private utilities and are, according to Federal regulations, eligible for Federal disaster assistance granting funds upon being so declared by the Federal Disaster Assistance Administrator.

The respective six Senators from these three States strongly supported the disaster declaration. The Federal Disaster Assistance Administrator turned down the major disaster declaration. They were the only ones I know who did not feel the major disaster declaration was substantiated. The Governors and Senators from the area agree Federal Disaster Assistance Administration was wrong in their conclusion.

We know that in the past few weeks another area in our State and areas in surrounding States have been affected by tornado damage. They have been declared Federal disasters by the Federal Disaster Assistance Administrator. In fact, because of tornado damage. Federal assistance has recently been granted to a rural electric co-op in a nearby State.

In recent years, seven other States and their rural systems have been awarded disaster aid using their eligibility under the law. The precedent for awarding aid had been established several years ago. The disaster declaration action was prompted because we were very much aware of grant assistance to Nebraska systems the previous year for a similar storm.

The electric cooperatives in the three-State area will have to raise electric charges substantially because the Federal Disaster Assistance Administrator would not declare a Federal disaster in the area. One rural electric cooperative will have to charge $5 per month per customer for the next 35 years. This spreads the hardship of the disaster over a long period of time for the victims.

Rural electric cooperatives are very important to the economy of the rural area affected by the storm. They serve a vital and necessary function. Electric bills are already high enough without additional charges being added as a result of the insensitivity of the Federal Disaster Assistance Administrator. Prompt action to relieve the prolonged hardship of the people in the three States and their cooperatives is needed immediately.

The Senator from Kansas is greatly concerned about the financial ability of the hardest hit cooperative to cope with the extensive losses. Rural electric cooperatives have very little reserves and in some cases there was almost none.

The amendment of the Senator from Kansas and Senators from Nebraska would in effect, earmark $19,370,200 of the appropriations for the Federal Disaster Assistance Administration to be used for grants for those losses caused by the storm in these three States.

This is based on estimates in the rural electric cooperatives.

This amendment of course, is extremely important to many rural residents who are suffering because of disasters, and the Senator from Kansas would urge its adoption.

Mr. President, I might say the distinguished Senator from Colorado, I think, is also interested in this amendment and I am happy to yield to the Senator from Colorado.

Mr. HART. Mr. President, I appreciate the Senator from Kansas yielding to me to add my support of this amendment and verify everything the Senator from Kansas has said. The degree of negative impact, the disastrous impact of the storm, was extraordinary. Portions of the State of Colorado are still recovering. The effect on electrification and electric service in the eastern part of Colorado and the other areas affected was enormous, and the costs have been extremely high.

We did join together to try to get normal disaster assistance. That was denied, for reasons that are still unclear to me, and I just want the record to show that, speaking for the people of Colorado, we feel very strongly about this amendment. We think it is a very good amendment, and wholeheartedly support it, and we hope that the Senate will accept it.

Mr. DOLE. Mr. President, I ask the Senator from Colorado if he would like to be made a cosponsor.

Mr. HART. Yes, I would appreciate it.

Mr. DOLE. Mr. President, I ask unanimous consent that the names of the Senator from Colorado (Mr. HART) and my distinguished senior colleague (Mr. PEARSON) be added as cosponsors of the amendment.

The PESIDING OFFICER. Without objection, it is so ordered.

Mr. DOLE. Mr. President, I wonder if we might interpose a quorum call. The Senator from Nebraska (Mr. CURTIS), I believe, would like to speak briefly

on this amendment before a point of order or other procedure is raised. Is that agreeable to the Senator from Wisconsin?

Mr. PROXMIRE. Yes.

Mr. DOLE. Mr. President, I suggest the absence of a quorum.

Mr. PROXMIRE. Mr. President, I ask unanimous consent that the time for the quorum call not be taken out of the time on either side.

The PRESIDING OFFICER. Without objection, it is so ordered. The clerk will call the roll.

The second assistant legislative clerk proceeded to call the roll.

Mr. CURTIS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The PRESIDING OFFICER. Without objection, it is so ordered.

Mr. CURTIS. Mr. President, I ask recognition on the Dole Amendment.

The PRESIDING OFFICER. Who yields time?

Mr. DOLE. Mr. President, how much time remains?

The PRESIDING OFFICER. The Senator has 7 minutes.

Mr. DOLE. I yield 5 minutes.

Mr. PROXMIRE. Mr. President, I am happy to yield such additional time as the Senator may require.

Mr. CURTIS. I thank both Senators.

Mr. President, this is not a happy situation, to come here and ask for a direct appropriation for a disaster. We are not here by choice. This is a method followed for many years, and then the agency was set up to rule these things.

I think the agency made a terrible blunder. Once in a while, a very severe snow and ice storm comes along and takes down all the rural electrification lines. A year ago we had such a storm in eastern Nebraska. Milking machines stopped, there was not any light in the county, we could not run the various motors on the farms for grinding corn or anything else, and the Disaster Agency came to the rescue and did what Congress intended. They paid these rural electrification districts for their unusual damage from a storm that was truly a disaster. That is the way it should have happened.

A year goes by, and we have a storm in Colorado and Kansas and part of Nebraska. It is a severe storm. Again, it destroys the power lines, creates a very difficult delay, and sometimes the individual farmers have to spend hundreds of dollars to get a mobile generator in order to supply their electricity; because if they are pumping water for irrigation with electricity, for example, and the power is off, their crop is gone for that year.

For some reason or other—well, I believe I know the reason—the President did not certify this storm which occurred in Kansas, Colorado, and Nebraska as a disaster of the magnitude set forth in the statute.

It was such a storm. It occurred from March 10 to March 19, this year.

Mr. President, if you will recall what was in the headlines of the paper, this storm was of such magnitude that trains were stopped, many people died, and power lines were damaged. In the State of Nebraska alone, the damage to the Nebraska public power district and the rural electrics was over $8 million.

It is true that if somehow they could get $8 million, they could add it onto the power bill and the consumers would pay it. But the point is this is not the only storm we have had. We have had other storms but not all have been of a magnitude to ask for Federal aid.

Some of these REA districts have one and two outstanding loans they had to make to rebuild the lines of previous storms. That factor was not taken into account.

Another factor that was not taken into account as the Federal agents looked into the books and said, "Aha, you have some money in the bank; you are not a disaster," was that the money there did not belong to the districts, or to the consumers, but was there to meet the on-coming obligations. The Federal Disaster Agency based its recommendations to the President on the fact that many of the rural areas could obtain REA 2-percent loans. They ignored the financial conditions of many of these rural electrics. The savings which do exist, have been accumulated to pay off past REA loans. In other words, we have quasi-public bodies which are heavily in debt to the U.S. Government. They suffer a major disaster and for some reason or other they are treated differently than the victims of floods, of tornadoes, of hurricanes. This has been the pattern over the country.

Mr. President, I stated in the beginning this was an unhappy experience. I believe the Congress, made a wise move when they turned away from special appropriations for disasters which occurred. It calls for investigating, and it calls for evaluating the losses, with careful planning. Also, these things sometime happen when the Congress is not in session. We did set up an agency to take care of them.

The agency failed us, and I believe wrongly so. I believe the President was totally incorrect in his finding that it was not a disaster which qualified. What makes it very difficult is that we have REA's in one end of the State that were taken care of a year ago, and when there was just as severe a storm in the other end of the State, from which Colorado and Kansas, also had substantial losses, those REA's were not taken care of.

It would be my hope, Mr. President, that the committee could accept this amendment. In the meantime, before this bill is settled in conference, this very influential committee could request the Executive to review this matter and, if possible, handle it so that the appropriation would not be necessary. To add the amendment at this time will clarify the situation and bring to a head whatever is wrong—and I do not think it was ever intentional—in making these determinations.

This disaster of 1977 is identical to the one we had in 1976. I think the same Government should give them the same treatment. I thank my distinguished colleagues for yielding.

Mr. PROXMIRE. Mr. President, I have great sympathy for the Senators from Nebraska, Kansas, and Colorado. They have made a very strong case. Undoubtedly the March blizzard was a serious problem in each of these States and substantial economic damage was suffered.

There is no escaping the fact, however, Mr. President, that this is special relief legislation. As the Senator from Nebraska has said so well, we have decided, for good reason, not to act on this kind of matter by the legislative route. Instead, we have set up an agency to investigate and make findings of fact so we know just what the situation is on an objective basis.

The fact is that under the present law the declaration of a disaster is up to the President, not the Congress. We have made that decision. The President had an opportunity to consider this particular disaster. He did not decide that it was appropriate to expend the money. If the President and the administration make a mistake, the way to handle this, it seems to me, is to amend the authorizing legislation to eliminate the possibilty for error.

I call the attention of the Senator from Kansas to the second item on the calendar. It is entitled "A bill to amend the Small Business Act to authorize the making of economic injury disaster loans in certain extraordinary circumtances without a disaster declaration."

That is in keeping with this particular stuation.

I have just talked wth the majority leader. He tells me that this bill will be called up after the recess, in just a few weeks. That would seem to me to be the appropriate vehicle. I would hope the Senator from Kansas and his colleagues would consider that route.

The fact is that there is money available. We have appropriated the needed funds. We do not need the $19 million the amendment would provide. The money is there and is ready to be spent in the event the President makes the decision that it should be spent, but he has decided against it.

I submit this is not the right vehicle through which to act in this case. The appropriate vehicle is on the calendar and will be acted upon shortly. I would hope the Senator from Kansas would not press his amendment but would bring it up when that other legislation is before us.

Mr. DOLE. Mr. President, the Senator from Kansas has no quarrel with the distinguished floor manager, the Senator from Wisconsin. I think it is of some interest that the presiding officer at this very moment (Mr. BAYH) is probably the architect of disaster assistance programs and has done a great deal of work in this area. Of course, I only say that to indicate the great effort he has made in this entire area.

It just seems to some of us who have worked with the distinguished Senator from Indiana and others trying to evolve a program, was a mistake, and we are not certain just what approach to take. The Senator from Kansas understands the amendment is subject to a point of order. It is the earmarking of funds and it would be subject to a point of order. It would seem to this Senator that

by raising it on the floor perhaps we might attract the attention of the administrator for one more review.

The Senator from Kansas is aware of the bill on the Calendar, that addresses loans. It might be better than nothing, but it was felt that we might have a better mode of relief.

Based on what the Senator from Kansas knows, I do not see any reason to pursue the amendment. If the point of order is raised, it will be sustained; so I could have some assistance, maybe indirect assistance, from the distinguished floor manager and the distinguished Senator from Maryland, attracting attention to this one, specific problem, it would be helpful.

Mr. PROXMIRE. I should be delighted to join the Senator from Maryland, the Senator from Kansas, the Senator from Nebraska, and the Senator from Colorado in asking the administration to take another look at this particular problem. I think the Senators have made an extremely strong case. These are Senators who are very careful about the public money and very concerned with excessive spending.

The Senator from Nebraska made a special point of this. He said that he thinks the route to go is the investigation route. I think that is a reasonable position, so I am happy to join the Senators in that kind of appeal.

The PRESIDING OFFICER. The Chair, in his capacity as the Senator from Indiana, also would like to join in that appeal.

(The following proceedings, which occurred later in the day, are printed at this point in the RECORD by unanimous consent.)

Mr. BAYH. Mr. President, I associate myself with the thrust of the remarks on the amendment of the Senator from Kansas.

I have great sympathy for him, having been in a similar situation, as far as the constituents of my State are concerned.

I also realize that the Senator from Wisconsin is in a difficult position. He was in a similar situation on the fiscal year 1977 supplemental when the Senator from Indiana succeeded in having the Senate adopt an amendment that would affect his State, Ohio, Michigan, and Pennsylvania, only to see it fall by the wayside because of, what I thought was, rather arbitrary action in the House.

To show how far FDAA will go, they declared an emergency for those four States due to severe winter weather in late January. FDAA issued an emergency declaration which called for assistance to protect the health and life and safety of the citizens in the affected counties. Unfortunately, it took about a week to get all these papers processed and the declaration announced.

In the meantime, people just did not stand around out there and let other citizens die. There were old people who could not get to the hospital, and who needed fuel and food.

Local government officials moved the snow and used all of their local maintenance money for the entire year.

Now, when the emergency declaration goes into effect, FDAA, a disaster agency which is supposed to help people, refuses to send money back to the States to compensate them for the money they used to keep lives from being lost and to minimize suffering during the week it took FDAA to process the papers. This situation has to change.

I was intimately involved in the writing of the Disaster Act, as the Senator from Kansas observed. Frankly, I am willing to look to any suggestion that might be made as to how we can change this Disaster Act, particularly regarding emergency declarations. However, I have a sinking suspicion that instead of going to the heart of the legislation, we had better go to the heart of the people who are administering it because in the situation to which the Senator from Indiana just referred, there was authority to permit the compensation of moneys that were used in resolving the problems created by an emergency during the time it took to process the declaration. The denial of this compensation makes absolutely no sense.

I associate myself with the Senator from Kansas, the Senator from Nebraska, and others in this regard.

Mr. DOLE. I thank the Senator from Indiana.

His case was worse than ours; in that he had a disaster declaration; we did not have one.

I certainly concur in his comments that we perhaps need not resort to legislation but should, instead visit with the administrator, to see how he interprets

what many of us understood was a law to relieve suffering and disaster. I know it is a difficult job. I do not condemn the administrator, but it seems to me that sometimes too much restraint is used when there is an obvious disaster.

Mr. BAYH. I thank the Senator from Kansas. Again, I express understanding of his position.

Sometimes trying to get something through the House is like running into a wall with your eyes shut. The Senator from Wisconsin has been very understanding.

(This concludes the proceedings which occurred later in the day.)

Mr. MATHIAS. Mr. President, I think we all have to take notice of the fact that last winter was the hardest winter in the entire history of the Republic. I do not know why we had to have that particular kind of finale to the Bicentennial, but we did. So I join with the Senator from Kansas, the Senator from Nebraska, the Senator from Indiana, the Senator from Wisconsin, and the Senator from Colorado. I think that together, perhaps we can underscore what is a fact, that last winter was the hardest winter in our entire history and it did create circumstances so unusual that they demand recognition.

Mr. DOLE. I appreciate the statements of the distinguished Senator from Wisconsin and the distinguished Senator from Maryland. I withdraw the amendment.

The PRESIDING OFFICER. Is there objection? Without objection, it is so ordered.

The amendment was withdrawn.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
FEDERAL DIASTER ASSISTANCE ADMINISTRATION,
Washington, D.C., July 26, 1977.

Hon. BOB DOLE,
U.S. Senate,
Washington, D.C.

DEAR SENATOR DOLE: In your letter of June 29, 1977, signed jointly with eight other Senators, you requested my assistance in two matters. First, you requested consideration of my decision not to recommend to the President that he declare a major disaster for Kansas, Nebraska and Colorado as a rseult of a snow and ice storm on March 10, 11, and 12, 1977. Second, you asked that I review the major disaster declaration process to see if it can be changed and improved to conform with the wishes of Congress.

I would like to address the second point first, since any reconsideration of a decision on a Governor's request for a major disaster declaration is covered by the same regulations and processses under which the original decision was made.

The intent of the Congress that Federal assistance be necessary to supplement State and local efforts and resources is emphasized in the Act. The disaster must be of such severity and magnitude that effective response is beyond State and local capabilities. Actions already taken or being taken by State and local governments, plus volunteer and other local efforts, and by various Federal agencies under their own statutory authorities are carefully evaluated to determine whether Federal assistance under Public Law 93–288 is necessary to supplement those capabilities. The final analysis of the facts in each case does involve judgments about which there may be honest differences. We do strive for consistency in preparing recommendations to the President but recognize that each Governor's request is unique and that each request must be evaluated on its merits.

In making my recommendation for Presidential action, I seek to reflect as accurately as I can the public policies and administrative philosophies of the President concerning decisions which the Congress has, by law, made a matter of his judgment. I maintain close liaison with his staff as a continual check on whether I am correctly interpreting his policies. I have reason to believe that my recommendations for action on requests for major disasters do reflect the President's policies. If they did not, I am equally sure that they would not be accepted.

We carefully analyzed all of the information submitted by the Governors of Colorado, Kansas, and Nebraska in both their original requests and the appeals. In addition, we met with representatives of the rural electric co-

operatives from each of the three States, and work closely with the Rural Electrification Administration (REA) to determine the impact of the losses and whether they were of sufficient severity and magnitude to warrant major disaster assistance. In each of the three cases, we found that the losses could be met through long-term loans provided by REA under its independent authorities. With exceptions to the normal long-term loan policies made by the REA Administrator, the assumption of such a loan would not place a severe per capita or fiscal burden on the affected cooperatives. In view of this, and the disaster loan assistance which could be provided to home-owners, businesses, and farmers by other Federal agencies under their independent authorities, it appeared that a major disaster declaration would not be warranted.

We are prepared to review any new information which may be pertinent. In the absence of any new information, I do not see how I can change my decision not to recommend to the President that a major disaster be declared.

I believe these comments should answer your two requests for my assistance. If you have questions that are still unanswered, I will, of course, be pleased to meet with you.

Sincerely,

THOMAS P. DUNNE,
Administrator.

[The following material was furnished by Al Ballard, general manager, Nebraska Rural Electric Association, Lincoln, Nebr., see p. 19 for his oral statement.]

RESOLUTION

Whereas, Southwest Public Power District has experienced a severe ice storm which will require funds in excess of its present reserves, and WHEREAS, the District proposes to finance the repair of storm damage partially from its reserves and partially from its general funds, and WHEREAS, the District is requesting special consideration of a low interest rate due to the severity of the storm and possible depletion of its reserve funds and request funds as follows:

Total Estimated Construction and Replacement—$803,535; Less: Original Cost of Replaced Units—$226,330; Balance—$577,205; From General Funds—$205; Net Loan—$577,000.

Now therefore be it *resolved*, That Southwest Public Power District make application to the Rural Electrification Administration for a loan in the approximate amount of $577,000, to be used in accordance with REA Bulletin 20–2 to finance the above mentioned facilities.

Be it further *resolved*, That the REA Note be in the full amount of the REA Loan and provide for the payment of principal to begin three years from the date thereof.

CERTIFICATE

I, Robert Nowka, do hereby certify that I am Secretary of Southwest Public Power District and that the foregoing resolution was adopted at a meeting of the Directors of the District held on June 15, 1977, at which meeting a quorum was present.

ROBERT NOWAKA,
Secretary.

SOUTHWEST PUBLIC POWER DISTRICT,
Palisade, Nebr., July 7, 1977.

Mr. AL J. BALLARD,
General Manager, Nebraska Rural Electric Association,
Lincoln, Neb.

DEAR MR. BALLARD: If we receive no Federal Disaster grant, this will affect rates charged all our consumers. The estimated cash outlay of $1,050,000 will be reflected in the need to obtain an additional loan in Fiscal Year 1978 (year starting October 1, 1977). Based on the new loan criteria our effective interest rate would be greater than 5%. Such a loan would be used to put back into operating condition plant on which existing rates were based. No additional consumers or revenue would result from such loan funds. This would affect

irrigation electric rates and other rates out of proportion to a normal loan. The storm damaged and replaced plant would have a rate base value of at least twice the normal value—with no revenue increase because of the additional loan.

All consumers of Southwest Public Power District depend on the rural economy. The businesses and residential consumers in towns served by us depend on the economic health of the rural agricultural economy of the area we serve. It appears that we will need a rate increase of approximately 36%, however, the exact percentage would depend on a rate analysis which would have to be made by our rate consultant.

Yours truly,

D. H. HUSTED,
General Manager.

THE MIDWEST ELECTRIC MEMBERSHIP CORPORATIONS,
Grant, Nebr., June 28, VTGG.

Mr. AL BALLARD,
Manager, Nebraska Rural Electric Association,
Lincoln, Nebr.

DEAR MR. BALLARD: The storm damage costs to Midwest Electric as a result of the March 10–11, 1977, ice and snow storm are now expected to reach $1,000,000. If this damage cost must all be expensed to rebuild necessary working capital I would estimate it would add 12–13 percent to our rates in the years 1978 and 1979.

Tri-State G & T, our wholesale supplier, has advised that wholesale rates for power will be increased 23.6 percent for the year 1978. Our retail rates will have to increase about 20 percent to offset this wholesale power increase and the needs of increased labor, transportation, and interest costs.

In December, 1976, our wholesale power rates were raised by 26 percent. Retail rates were raised by 17 percent as a result of this increase.

Yours truly,

HAROLD W. HERMANN, *Manager.*

WHEAT BELT PUBLIC POWER DISTRICT,
Sidney, Nebr., June 30, 1977.

AL BALLARD,
Manager, Nebraska Rural Electric Association,
Lincoln, Nebr.

DEAR AL: Regarding the effects of the March 10–11 storm on our rates, the damage will necessitate an increase of 13 to 15 percent in our rates if we cover it over a two-year period. If we can borrow 78 percent of the cost of replacement long term, it would necessitate an increase of seven or eight percent for one year, and then add about $40,000 to our loan repayment for the next 35 years.

We are, of course, faced with a substantial wholesale rate increase in January, probably over 27 percent after increases the past three years that have increased our end rate by 100 percent.

Another way of putting it is the loss amounts to almost $300 per meter on our system. That is $300 on every irrigation well, farmstead service, stock pump, etc.

Very truly yours,

GENE M. LIENEMANN,
General Manager.

MCCOOK PUBLIC POWER DISTRICT,
McCook, Nebr., June 28, 1977.

NEBRASKA RURAL ELECTRIC ASSOCIATION,
1320 N. Street, Box 82048,
Lincoln, Nebr.

Attn: Mr. Al Ballard.

DEAR AL: Your continued work and persistence on the storm damage grant is appreciated. It is hard for me to see (1) why they ignore this damage and provided funds to those in Eastern Nebraska last year, and (2) why they

fail to understand that financial help here is a direct benefit to agricultural regions that are having economic problems already.

This District was more fortunate than most of those west of us as our losses over the two weekends was only a little over $150,000. In averaging the retained earnings of the District for the past fifteen years, I find that the average has been $146,091 per year. The storm, then, took one year's average earnings and certainly set us back in our goal to gain more equity in plant.

Our last rate increase went into affect on January 1, 1976, the same day our wholesale power cost was raised by Nebraska Public Power District.

This storm loss alone would probably not be enough to bring about a retail rate increase for our consumers. I'm sure our Board would agree to absorb the loss.

If however, the Nebraska Public Power District raises its wholesale rate to us in 1978, I am also sure that we would raise our retail rates a corresponding amount and add one or two per cent to offset this storm loss. As you know, it is imperative that REA formulas on DSC and TIER (Debt Service Coverage and Times Interest Earned Ratio) be taken into consideration. The rate of return for this system should be 5 percent. The last rate increase was calculated to increase operating revenue approximately $700,000.

Sincerely,

JOHN B. MCDOWELL,
Assistant Manager.

[From the Rural Electric Nebraskan, May 1977]

THE STORY OF TWO STORMS: WERE THEY BOTH DISASTERS?

Remember March of 1976?

A storm swept over the southcentral portion of Nebraska, causing upwards of $25 million in damages to rural electrics and their wholesale supplier, Nebraska Public Power District.

Everyone knew it was a disaster, including the Federal Disaster Assistance Agency, whose job it is to provide aid in such cases.

So far, payments approved to our systems for the '75 storm under Federal disaster assistance programs has been $8,500,000. Another $12 million has been approved for NPPD. Various cities and towns got lesser amounts for a grand total thus far of $23,369,518.

But that was last year.

Again this year in March a storm hit some of our systems hard. It did less total damage but the bill for repairs is still figured to be around $3.5 million, most of it by three of our systems.

Was it a disaster like the twin storm of the years before?

To the people affected there was no doubt that it was. The rural electrics involved had heavy losses and it will be a while yet before every irrigator will be hooked and ready for the season.

To the Federal Disaster Assistance Agency, however, it was not a disaster, at least not at this writing. Forget that it did the same kinds of damage to our systems as the storm of a year ago did.

Somehow the March 4 storm of this year struck FDAA as being not as important as the same kind of storm March 29 last year.

This, even though three of our systems averaged around $1 million each in damages. That's more, by the way, than the total damage approved by FDAA for any of our member systems last year except South Central Public Power at Nelson and Southern Public Power at Grand Island. South Central had more than $1.5 million in damages in the '76 storm and Southern had $1,285,250 in damages.

Only non-member districts York Public Power and Norris Public Power had more.

In turning down the request for federal disaster aid, FDAA said that "the rurals had sufficient funds on hand to handle the disaster and that it is also possible to pass the costs through to the consumers in higher prices."

The first is not true. Rurals do not maintain $1 million in the bank earmarked for disasters. The second is true. The costs could be passed to the consumer in the form of higher prices. But the same thing was true last year—and for any year we've had major storm damage in the state.

The news of the turndown shocked the rurals, as well as our Congressional friends and our Governor.

On Wednesday, May 20, a group of Nebraska rural electric leaders and representatives from Kansas and Colorado, both also hit hard by the storm, flew to Washington, D.C. to confer with FDAA officials. Joining them were our two Senators, Carl Curtis and Ed Zorinsky and Kansas Senator Bob Pearson.

"Obviously," said Al Ballard, manager of the Nebraska Rural Electric Association, "the first decision by FDAA was based on incorrect information. We presented new information at the meeting which we hope will result in a change of mind by the agency. We do not understand the original decision—why the same kind of a storm last year was a disaster and this year's was not."

Present at the meeting from Nebraska were the managers of the three systems most involved, Harold Hermann of Midwest EMC at Grant, Donald Husted, of Southwest Public Power at Palisade and Gene Lienemann, of Wheatbelt PPD of Sidney. Paul Ogier, national representative for Nebraska from Wallace, and Leland Kitt, president of the Southwest PPD board, also made the trip. Managers of the state associations for Kansas and Colorado were also there.

Burl Johnson, Nebraska Civil Defense director, represented Gov. J. J. Exon at the meeting.

At this writing no word has come from FDAA on the final decision but we'll be reporting it to you when it comes.

Let's hope that a disaster in March of one year is also a disaster in the following March. We cannot see how it could be otherwise.

STATEMENT OF DICK WILKERSON, GENERAL MANAGER, COLORADO RURAL ELECTRIC ASSOCIATION, DENVER, COLO.

Senator Allen, members of the subcommittee, I am Dick Wilkerson, General Manager of Colorado Rural Electric Association with headquarters in Denver, Colorado.

May I initially express my pleasure in appearing here today and presenting to you a picture of the disaster that occurred in early March in our mid-western and western states.

Colorado Rural Electric Association is a service organization for the rural electric cooperatives in Colorado. There are twenty-five electric distribution cooperatives providing service to more than 75 percent of rural Colorado and more than 175,000 electric consumers.

Another aspect of the type of service so necessary to be able to provide the benefits of electric energy to rural America in the same fashion that is available to our urban areas, is that it requires more than 52,000 miles of line to accomplish this in the Colorado Rural Electric program. This one particular aspect is of considerable importance when we consider what happened in the disastrous storm early in March of this year.

In addition we also have within our rural electric structure in Colorado two generation and transmission cooperatives. Colorado-Ute provides power supply to thirteen of our cooperatives in western and southern Colorado; Tri-State provides similar service to eight northeastern Colorado cooperatives, eleven Wyoming cooperatives and six in the state of Nebraska.

On the afternoon of March 10, 1977, five of our eastern distribution cooperatives and the Tri-State Generation and Transmission Association suffered the most severe damages and loss of service ever experienced by those cooperatives or any other cooperatives in the state of Colorado.

The storm lasted for four days. The storm itself was one of the worst that had been experienced in many, many years.

The five rural electric cooperatives and Tri-State G&T suffered the loss of more than 13,000 poles and totaling more than 800 miles of electric line. About 25,000 electric users were affected. Power interruption caused losses of home food supplies of more than $100,000. It was obvious to the Boards of Directors, the managers and the employees and the electric consumers of those areas that it was going to be days and in some cases even weeks before service could possibly be restored.

Other related aspects of the overall disaster also must be considered. Twenty-one counties suffered more than $89 million damage to homes, to crop land, pasture, to wheat and the other crops and then the losses of cattle, hogs, sheep and horses were staggering.

When accurate statistical information was compiled it was determined about 40,000 head of cattle died initially and another 20,000 head were lost and stranded in remote locations. Losses of hogs, sheep and horses totalled about 20,000.

All of this coupled with the electric utility losses of more than $10 million had a most severe financial impact on the entire area involved and particularly to the farmers and ranchers that generally make up the population of those areas.

Tremendous damage was caused and sharp increases in electric utility rates could well be necessary. All of this added to severe drought conditions and cost price squeezes that are the worst experienced in years would very likely drive many of the rural people to financial ruin.

Immediately following the climax of the storm we initiated our efforts to compile the necessary information in order that Governor Lamm of our great state could present the best case possible to the regional and the federal disaster assistance agents to have the storm area declared a disaster area and to secure available grant funds to relieve the disastrous financial crunch that had been placed on the residents of that area.

We did this because we were well aware of previous efforts in other states and other areas where grant funds had been secured and under conditions where we believe the results of a catastrophe were not as serious as what we had experienced in our own storm.

In the meantime, other rural electric cooperatives, electrical construction contractors, and our investor-owned utilities provided all of the personnel possible to the cooperatives suffering the most severe damage in order that service could be restored as soon as possible.

Then in early April we were shocked and dismayed to learn that the Federal Disaster Assistance Agency had recommended denial of the disaster request or the possibility of grant funds. We hadn't anticipated this and immediately we began to gather more complete information to renew our request because we were greatly concerned about the financial ability of the hardest hit cooperatives to cope with their extensive losses.

I'm sure this committee realizes that the rural electric cooperatives today have very little reserves and in these particular cases there were almost none.

We also recognized that if we did not get grant funds then we must face the possibility of substantial rate increases to meet new debt service without increased revenues.

At the same time, considering the "worst case" possibility, we also initiated efforts with the Rural Electrification Administration to meet the financial burden through long-term loans, if we were not successful in getting the decision changed for the availability of grant funds.

Early in May, fifty-six days after the storm happened, the last of the emergency work was completed. Then a few days later we again received word that the request for reconsideration by FDAA had been turned down.

I, and those I represent in Colorado are critical of what the agency has done. If we review the criteria for declaration of previous disasters, the provision of grant funds under those declarations, I feel certain that we have a clear case that in many instances the criteria or the conditions of those declarations were not nearly as severe as what took place in the storm in early March.

I am concerned that in our discussions and deliberations with the officials with FDAA in this case it appeared they never wanted to consider *all* aspects of the catastrophe and gave us the impression that no credence should be given to home, agricultural and animal losses in considering the need of grant funds to the non-profit utilities in that area. Those non-profit utilities are owned by the same people who suffered the losses and I believe that all aspects must be necessarily considered if proper and logical conclusions can be developed. In several instances it was pointed out to us that various kinds of loans would be available to these people as well as the loans that would be available to the non-profit electric utilities by the Rural Electrification Administration.

I want to point out that as of this date the loan process for those people has not worked in Colorado. It is my understanding that loan requests for either the storm disaster conditions or the drought conditions that have accompanied it have not completed processing and therefore funds have not been made available to those people.

One other most important aspect, loans must be paid back and obviously, this makes a grant much more desirable in that there is no interest and the principal does not have to be repaid.

We are concerned in that our experiences with the federal agency in this disaster request resulted in an unexpected change of criteria. We are now asking "what is considered a disaster at this time?" "What can we expect in the future?"

Obviously this is the purpose and the intent behind Senator Curtis' introduction of S. 1729. He believes something must be done. Something should be done. We believe the Administration of REA is a very logical person to pass judgment on the impact of a disaster such as the one that occurred in March. We believe this is logical because in many of these instances, other segments of agriculture are involved and REA being an important part of the Department of Agriculture makes the overall working relationship practical and desirable. The purposes and the intent of Senator Curtis' bill is strongly supported by the rural electric cooperatives in Colorado because we believe something must be done before a disaster of a similar nature occurs to us or other areas of the country and again, funds would not be made available to people in need. Therefore, Senator Allen and members of the subcommittee, we believe it to be most important that legislation does come forth to correct this situation and we believe such legislation coming from this subcommttee is most appropriate because of its responsibilities in the field of agricultural credit and rural electrification.

Again, gentlemen, may I state on behalf of the rural electric cooperatives and the thousands of people they serve in Colorado, we very much appreciate the opportunity to present this information to the subcommittee.

STATEMENT OF HAROLD SHOAF, ADMINISTRATIVE ASSISTANT TO THE GENERAL MANAGER, KANSAS ELECTRIC COOPERATIVES, INC., TOPEKA, KANS.

Mr. Chairman, and members of the Committee, my name is Harold Shoaf. I am Administrative Assistant to the General Manager of the Kansas Electric Cooperatives, Inc., the state association of all 37 electric cooperatives serving some 125,000 consumer members in the state of Kansas. This testimony is presented on behalf of all Kansas RECs in support of Senate Bill 1729 by Senator Curtis which would amend the Rural Electrification Act of 1936 in order to permit the use of the Rural Electrification and Telephone Revolving Fund to provide grant funds for the repair and replacement of certain electric power and telephone lines and equipment damaged or destroyed in rural areas by natural disasters.

Senate Bill 1729 is of significant importance to Kansas RECs due to their natural disaster vulnerability. Kansas REC's have approximately 65,000 miles of electric lines in service which is enough line to go around the world 2½ times. Kansas RECs serve in 103 of Kansas' 105 counties. Therefore, when a natural disaster occurs in Kansas, such as a blizzard, tornado, or flood, the rural electric lines and electric service in sparsely populated rural areas are especially vulnerable. Such natural disasters may practically destroy an entire rural electric system and cause devastating livestock and other property losses to the rural electric consumer owners. Disaster assistance is needed in these cases to reduce the suffering and tremendous personal losses of the affected people. One such disaster occurred on March 10, 11 and 12, 1977, when a very severe blizzard struck Northwest Kansas, Eastern Colorado and Southwestern Nebraska. One hundred mile per hour wind-driven snow caused great destruction of personal property and human suffering throughout the area. Rural roads were blocked with 15 foot snowdrifts; electric lines were shredded, poles were snapped off and crossarms were shattered. Those facilities that delivered electric energy to consumers in the affected area were completely demolished.

Work to restore the electric lines began even before the storm abated. Hundreds of line repairmen along with equipment and supplies were moved into the stricken area, but it was still more than two weeks before electric service was restored to all consumers in Northwest Kansas. It was even longer in Colorado.

Following that devastating storm, the Governors of all three states toured their respective affected areas by air and ground. Each Governor was shocked by the devastation and declared his state to be in need of Federal Assistance. Proper and detailed requests were prepared and presented by all three Governors' Offices to the Federal Disaster Assistance Administration requesting Federal Assistance Grants to assist in the restoration of electric service.

Through an Act of the U.S. Congress, in 1974, non-profit utilities became eligible for Federal Disaster Assistance funds. Rural electric cooperatives are such non-profit private utilities and are, according to Federal Regulations, eligible for Federal Disaster Assistance Grant Funds upon being so declared by the Federal Disaster Assistance Administrator.

$1,142,000 was the total amount of the disaster grant requested by Kansas Governor Bennett on behalf of the three rural electric cooperatives in Northwest Kansas who suffered the devastation of this great blizzard. Actual costs to totally restore the electric systems will, however, amount to considerably more than the grant funds requested.

More than three weeks elapsed without a reply from Washington to the Governors' requests. Then in a letter dated April 11, 1977, from Mr. Thomas P. Dunne, Administrator of the Federal Disaster Assistance Administration, to Kansas Governor Bennett, Mr. Dunne stated, "Based on our assessment, we have concluded that this situation does not appear to be of such severity and magnitude to warrant a major disaster declaration." Mr. Dunne also stated in his letter "Each of these rural electric cooperatives maintain substantial working capital on hand when compared to the estimated cost of restorative work resulting from the winter storm." He further stated "Current estimates of the cost to repair the storm damage to the distribution systems may range from $200 to $500 per customer."

The Administrator of the Federal Disaster Assistance Administration thus turned down the request of the people for assistance from their Federal Government. In doing so, his statement that "the rural electric cooperatives maintain substantial working capital on hand when compared to estimated cost of restorative work resulting from the winter storm" was not factual. The affected Kansas RECs did not have any such working capital. Two of these Kansas systems had in fact been operating in the "red" for several months.

Because of this "turndown" apparently based on non-factual information, rural electric leaders in the three state area requested through their United States Senators, that a meeting be conducted in Washington, D.C., with representatives of the Federal Disaster Assistance Administration. Much factual financial information was provided to representatives of the Federal Agency at the time of that meeting and through subsequent mailings. The agency agreed to take the matter under advisement again. The three respective state Governors again formally requested such reconsideration in the proper manner to the President.

Finally, on May 19, 1977, (more than two months after the devastating blizzard), Mr. Thomas P. Dunne, Administrator of the Federal Disaster Assistance Administration, sent another letter to the Governor of Kansas in which he stated, "Therefore, I must inform you that we have re-affirmed our earlier decision not to recommend to the President that he declare a major disaster in this instance."

In his latest letter to the Kansas Governor, Mr. Dunne also wrote, "One of the Kansas Rural Electrics affected by the storm damage could obtain loan funds from the Rural Electrification Administration for a period of 35 years to restore the electric system." He further estimated that, "Over the period of 35 years, the average cost to each individual member of this particular system would be only $2,968."

This Committee should be aware that even if Mr. Dunne's figures were correct, they applied to only one Kansas system which did not have all of its service area affected by the blizzard. Even so, a nearly $3,000 extra charge to each consumer of this particular electric system is no small matter in this time of high electric bills. These affected people are generally farmers and ranchers who are financially adversely affected by low farm prices.

It is important for this Committee to also know that these farmers and ranchers in Northwest Kansas *did not request individual assistance from the* Federal Government, even though their individual losses were staggering as a result of the devastation in the March, 1977 storm. In one Kansas county alone it was conservatively estimated that individual personal losses for each farmer and rancher in the county averaged more than $3,000. They lost hundreds of heads of livestock and many miles of fence and other facilities, and these are the same people who also suffered the loss of their rural electric systems.

Mr. Chairman and members of the Committee, I have attached to my statement a notification which has been mailed to all consumers of one of the affected rural electrics. This notification is to inform each consumer of that REC that an annual charge of $60.00 may be necessary to pay for the cost of

restoring their electric system as a result of the March blizzard. This charge is $5.00 per month and will apply for the next 35 years for every consumer member of this REC. It's a charge that this REC must pass on to its consumers in higher electric rates because the Federal Disaster Assistance Administration would not declare Northwest Kansas a Federal Disaster area to help the stricken people.

We know that in the past several weeks some areas in surrounding states that have been adversely affected by tornado damage have been declared Federal Disasters by the Federal Disaster Assistance Administration. In fact, as a result of such tornado damage, Federal Assistance has been granted to at least one REC in a border state to Kansas recently. We believe decisions by the Federal Disaster Assistance Administration have been inconsistent in defining eligibility which has produced confusion and inequities that have resulted in our three states being discriminated against. These unnecessary hardships that will be suffered by increasing numbers of consumers will continue, unless a more clear, consistent, equitable natural disaster program is implemented.

Now we do not quarrel with the fact that tornadoes destroy property of individuals and businesses. Nor are we against such destruction being considered for Federal Disaster Assistance. We do, however, sincerely question why the devastating blizzard which struck Northwest Kansas, Eastern Colorado and Southwestern Nebraska in March, 1977, entirely demolishing all electric lines in much of the affected area should not also have been declared a Federal Disaster. There is a necessity of clear cut guidelines as to what is, or is not, a Federal Disaster.

All 37 Kansas RECs support Senate Bill 1729 to amend the Rural Electrification Act of 1936 to permit the use of grants from the Rural Electrification and Telephone Revolving Fund for the repair and replacement of certain electric power and telephone lines and equipment damaged or destroyed by natural disasters in those cases where the Federal Disaster Assistance Agency fails to respond to help the people in such disaster stricken areas as occurred in Northwet Kansas in March, 1977.

Senate Bill 1729 would allow the Rural Electrification Administration Administrator to utilize funds for grants to electric and telephone systems damaged by Acts of God, when such systems service area has been declared a disaster by the Governor of a state and when the assistance is not made available through the Federal Disaster Assistance Agency.

It is our firm belief that the Administrator of the Rural Electrification Administration and his staff have the best expertise to evaluate equitably and consistently the need for grant funds for repair and replacement of non-profit electric and telephone facilities when such facilities are damaged or destroyed as a result of a natural disaster. The Rural Electrification Administration has documented information in their files relative to assets and liabilities of electric and telephone cooperatives which would effectuate justification for grant funds.

Mr. Chairman and members of the Committee, I express appreciation to each of you for this opportunity to testify in favor of Senate Bill 1729. We urge your support of this important and needed legislation.

[From the The Spark—Great Plains Electric Cooperative, Inc., July, 1977]

Should Nuclear Power be Used in the Generation of Electricity in Kansas?

$60 ANNUALLY MAY BE ADDED TO MEMBERS' ELECTRIC BILLS

Because of recent damage and resulting repair costs to our Cooperative during the late winter blizzard, Great Plains Electric Cooperative, Inc., may be adding a $60 per year member increase to the electric bills, or $5 per month. However, we will do everything in our power to keep it as low as we possibly can and feel it will not be over $60 per year.

It is unfortunate that such an increase is necessary. Your Cooperative can assure you that we have attempted and will continue to put forth every effort to get disaster assistance to help offset the high price tag. However, our request for federal disaster assistance has twice been denied by the Federal Disaster Assistance Administration in Washington, D.C.

Your Cooperative's management, as well as officials of our statewide association, Kansas Governor Robert Bennett, and the Kansas Congressional delegation personally visited with proper officials. Gov. Bennett has accused the federal government of being more interested in votes than in the human suffering of

the sparsely populated rural area, adding "this attitude of the federal bureaucrats shows a callous and heartless disregard for the painful financial burden that must now be borne by Northwestern Kansas farm families."

Our Cooperative was not the only Cooperative affected by the March storm. Damage was extensive to Norton-Decatur Cooperative Electric Company, Inc., Norton, and Northwest Kansas Electric Cooperative Assn., Inc., Bird City.

Similar request for disaster aid came from elected officials and rural electric officials of Colorado and Nebraska. As one official said, if the Nebraska ice storm was a disaster in 1976, surely this three-state storm damaged area was also a disaster in 1977.

Anyway, the damage did occur and the repairs have been made. Now we must pay the price through additional charges per member. Your continued understanding of the increased costs of electricity is appreciated.

STATEMENT OF DAVID C. FULLARTON, EXECUTIVE VICE PRESIDENT, NATIONAL TELEPHONE COOPERATIVE ASSOCIATION

My name is David C. Fullarton and I am Executive Vice President of the National Telephone Cooperative Association. NTCA is a national trade organization which represents the nation's 240 rural telephone cooperatives and, in addition, some 52 locally-owned and operated commercial independent telephone systems. The overwhelming majority of NTCA members receive their capital financing through one or more of the lending programs operated by the Rural Electrification Administration.

The principal legislative objective of the National Telephone Cooperative Association has always been to secure adequate capital financing under the rural telephone loan programs administered by REA. I am here today to speak in opposition to S. 1729 because I feel that its provisions could endanger those financing programs. During the 15 years I have been with NTCA, the annual funding levels for the rural telephone program have increased more than eightfold, from some $75 million to more than $600 million dollars. I believe the most important factor in gaining the bipartisan congressional support for this additional financing has been the willingness of the borrowers to pay their own way—to accept changes in the Rural Electrification program, changes which increased the cost of loan capital to them but decreased the amount of subsidies required from the Federal Treasury. Let me review briefly the changes in the Rural Electrification program which have taken place.

The rural telephone loan program was established by amendment to the Rural Electrification Act passed by Congress in 1949. Under the terms of that new program, direct loans were made to qualified borrowers for a period of 35 years and bearing interest at 2 percent annually. All rural telephone loans financed by the government during the period from 1949 to 1971, were made in this manner. This is no longer the case. As members of this subcommittee are aware, but many Members of Congress and the public are not, the rural telephone program has been considerably revamped over the past six years. Today, less than 15 percent of the annual financing made available to rural telephone systems bears the interest rate of 2 percent. Rural telephone borrowers now normally receive insured loans financed from the Rural Electrification and Telephone Revolving Fund at an interest rate of 5 percent. Financing is also available from the Rural Telephone Bank, established in 1971 to provide supplemental financing at a current interest rate of 6½ percent. Guaranteed loans are also made by REA under a contractual arrangement with the Federal Financing Bank which makes funding available at the cost of money to the Federal Financing Bank on the date upon which advances of cash are drawn down.

I have two reasons for including this brief outline of current rural telephone financing in my statement: First, to reemphasize NTCA's support for the several amendments to the Rural Electrification Act passed in 1971, 1973, and 1976, which established the principle that interest costs on government-assisted rural telephone financing will be related directly to the financial strength of the telephone systems involved and subsidies in interest rates, if any, will be minimized. Secondly, I want to emphasize, even more strongly, NTCA's belief that the Rural Electrification program which has now operated for more than 40 years as a loan program should not now be modified to include grants.

In the rural telephone program, from 1949 to date, a total of more than $4 billion has been loaned to borrower systems. During this period of time the

federal government has never had to write off so much as a single cent of this amount as an uncollectable debt. In fact, as of January 1, 1976, the most recent statistics which I have available, a total of $1,252,000,000, including nearly one-half billion dollars in interest, has been repaid by rural telephone systems financed through the REA programs.

Speaking in strictly political terms, we believe that this fact, that NTCA's members are supporting a loan program, loans which are repaid at interest, has been one of the strongest points we have in efforts to support adequate levels of rural telephone financing. NTCA is reluctant to have this record blurred by amendment of the Rural Electrification Act permitting direct grants to be made from the Rural Electrification and Telephone Revolving Fund.

When the Congress passed PL 92–32 in 1973, which created the Rural Telephon and Electrification Revolving Fund, the assets of the fund were designated to serve as resources for insured loans to be made to electric and telephone borrowers. It was the hope of the principal sponsors of the legislation and the borrower groups that those assets would be sufficient to allow the program to be funded at necessary levels without recourse to requests for additional congressional appropriation of funds. Since this fund was established it has not been necessary for any such supplemental appropriations to be requested from the Congress. NTCA is concerned that if any substantial amount of direct grants were to be made from the assets of the revolving fund, the stability of the insured loan program would be threatened. It might well be necessary at an early date to request additional appropriated funds from the Congress for the revolving fund. NTCA opposes this.

DISASTER ASSISTANCE GRANTS

I would now like to direct my comments to the specific question of provision of special financial assistance to REA borrowers, telephone and electric, which may suffer extraordinary storm damage during natural disasters as is proposed by S. 1729.

NTCA is opposed to the concept of altering the existing rural telephone financing program to make direct grants available from the assets of the Rural Electrification and Telephone Revolving Fund. We are concerned, however, that adequate sources for refinancing be made available in cases where REA borrowers have suffered extraordinary storm damage. REA telephone borrowers serve the least economically desirable areas of the country. REA now makes financing available to those telephone systems at the highest rate of interest that the systems can repay. Obviously there is little margin in the operations of remote rural telephone systems in West Texas or the Dakota plains, many with subscriber densities of 2.0 per mile or even fewer, to undergo the expense of replacing equipment and facilities seriously damaged or destroyed by natural disasters.

For that reason, NTCA strongly supported S. 3062 which was sponsored by Senator Quentin Burdick in 1974. Entitled the Disaster Relief Act Amendment of 1974, this amendment to the Federal Disaster Relief Act expanded its provisions for the first time to provide emergency financing to rural electric and telephone cooperatives. Section 402(b) of the 1974 Act provides that:

"The President is also authorized to make grants to help repair, restore, reconstruct or replace private non-profit educational, utility, emergency medical and custodial care facilities, including those for the aged or disabled, and facilities on Indian reservations as defined by the President, which were damaged or destroyed by a major disaster."

Subsection (e) of the same section goes on to indicate:

"The Federal contribution for grants made under this section shall not exceed 100 per centum of the net cost of repairing, restoring, reconstructing or replacing any such facility on the basis of the design capacity of such facility as it existed immediately prior to such disaster and in conformity with current applicable codes, specifications and standards."

In the committee report accompanying S. 3062, it was specifically indicated that the utilities referenced in Section 402(b) were REA cooperative borrowers, "utility facilities * * * the latter being rural electrification and telephone membership cooperatives."

During the floor debate on that legislation, Senator Howard Baker of Tennessee, specifically reemphasized this particular point. He commented that:

"The Senate bill provided—for the first time—funds for repair and restoration of private non-profit utilities, such as REA membership co-ops. I am

pleased that this provision was retained intact in the conference. For example, in my state of Tennessee, extensive damage was inflicted on many REA facilities."

Despite this clear statement of congressional intent, it appears obvious to NTCA that successive administrations at the FDAA have not intended to fully utilize these new authorities when REA borrowers were involved in disaster situations. The Administration comments offered to the Congress while S. 3062 was under consideration did not endorse adding REA electric and telephone cooperatives as entities eligible for Federal Disaster assistance.

Administrative regulations to implement the provisions of S. 3062 after enactment were held up for several months because officials at FDAA were concerned that the availability of REA loans would create an eligibility stumbling block to providing grants to electric and telephone cooperatives because S. 3062 contained language stating that grants made under the Act not duplicate any other federal program.

NTCA believes such considerations were a misrepresentation of congressional intent. An FDAA grant to replace facilities destroyed by natural disaster would scarcely seem to duplicate the REA loan program which is intended to make available loan capital to expand or upgrade the quality of existing telephone service.

By August of 1974, however, the necessary regulations were published and NTCA assumed the question was solved, that the eligibility of REA borrowers for FDAA grants in event of natural disasters was clearly determined.

S. 1729 PROVISIONS

If our understanding of the circumstances which led to introduction of S. 1729 is correct, the eligibility of REA cooperative borrowers for such FDAA grant financing has not been questioned. REA borrowers in the states of Nebraska, Colorado and Kansas, suffered major storm damage this past March 10–11, and, for whatever reasons, FDAA has not seen fit to request these areas be made eligible for federal disaster assistance benefits. In a recent statement on the Senate floor, Senator Bob Dole of Kansas, reflected the concerns of citizens in the areas affected that administrative considerations within the Executive Branch, rather than the needs of the localities, have influenced FDAA actions:

"I have recently become very concerned over the degree to which political considerations have denied Federal assistance in what is a very important function in our country, food production.

"* * * As I understand, the FDAA has been exerting its principal efforts in looking for ways these affected areas might survive without Federal assistance—and not how they can truly provide fast and efficient assistance to major disaster victims.

"The FDAA has tried to divert attention away from their responsibility of providing federal grant assistance by emphasizing the availability of Rural Electrification (REA) loans."

The question before us is, however, what is the appropriate course of action to assist REA electric and telephone cooperatives in such instances when, for whatever reasons, they are not eligible for FDAA assistance. Under such conditions, S. 1729 would permit the Administrator of REA the option to make grant financing available to REA borrowers from the Rural Electrification and Telephone Revolving Fund.

While NTCA understands the motivations behind the sponsorship of such legislation, we cannot concur with the proposed solution contained in S. 1729. NTCA believes that the stability of the Rural Electrification Administration loan program would be adversely affected by the major structural change from a loan program to a combined loan-grant program.

We also believe that the national interest would not best be served by enactment of legislation which directs that in instances where the President declines to designate an area as eligible for federal disaster assistance, the Administrator of an individual USDA agency, in this case the Rural Electrification Administration, be given the authority to make an independent determination that federal grants will be made to one limited type of recipient, REA electric and telephone cooperative borrowers.

Although we cannot support the amendment to the Rural Electrification Act proposed in S. 1729, NTCA is concerned that assistance be made available to

the REA borrowers which suffered storm damages this past March and questions why FDAA financing has not been made available.

We are concerned that the decisions made by the FDAA were motivated not as much on the merits in these circumstances as by limitations on resources available to the agency. If I could propose an analogy, NTCA has always supported the concept of a coordinated federal approach to the question of rural area development. Like most other rural-oriented organizations, we have been disappointed in the implementation of the landmark Rural Development Act of 1972. One of the major stumbling blocks in the way of full and effective implementation of that legislation, in our view, has been the Farmers Home Administration. The 1972 Rural Development Act gave major new authorities and responsibilities in the rural development area to USDA and FmHA. To date, however, this major grant of authority and responsibility has not been accompanied by appropriate increases in personnel and financing which would permit FmHA to do the job with which it is challenged. NTCA has to question whether, in fact, the FDAA may not be in precisely the same position. Are the actions which the agency has taken predicated by shortcomings in the Executive Branch rather than by justifiable determinations that federal aid, as clearly specified in the 1974 amendments to the Act, not be granted. This would seem to be an appropriate subject for congressional investigation.

If eligibility for federal disaster assistance is withheld from an area or state, it is pointed out that electric and telephone cooperatives can turn to the Rural Electrification Administration for additional financing. While the Adminstrator of REA does have discretionary authority to make 2 percent insured loans to any borrower systems when he determines the borrower: ". . . has experienced extenuating circumstances or extreme hardship," NTCA believes that making us such additional loans to refinance systems suffering disaster damage is not an appropriate utilization of the assets of the Rural Electrification and Telephone Revolving Fund and that the congressional action taken in 1974, specifically creating eligibility for Federal Disaster Assistance grants for electric and telephone cooperatives indicates concurrence with our position.

CONCLUSION

NTCA strongly supports the eligibility of REA electric and telephone cooperative borrowers for Federal Disaster Assistance Administration grant financing. NTCA asks that Congress study carefully the reasons surrounding the decisions made by FDAA to deny disaster status to areas containing REA telephone and electric borrowers which suffered major damage in recent natural disasters. NTCA urges the subcommittee to require a complete explanation from the FDAA in order to ascertain whether inefficiencies within the Administration have played too large a role in the determinations to withhold such financing assistance.

The Congress would not be well advised to pass S. 1729 and change the character of the REA program. NTCA does ask that the Congress make a careful study of the present administration of the Federal Disaster Assistance programs to determine whether the congressional mandate spelled out in S. 3062, to include REA cooperative borrowers as eligible recipients for such financing, is being properly administered by the Agency. Communications and power, as the most recent blackout in New York City showed, are absolutely vital to 20th Century life, and restoration of such facilities should be given the highest possible priority by a federal disaster program. NTCA's opposition to S. 1729 focuses only on the unadvisability of attempting, in the absence of action of the proper agency, the FDAA, to redesign the REA lending program to meet a need for which it was not designed and is not intended.

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