MINUTES

North Dakota State Water Commission
Bismarck, North Dakota

September 16, 1982

The North Dakota State Water Commission held a meeting in the offices of the State Water Commission, State Office Building, Bismarck, North Dakota, on September 16, 1982. Governor-Chairman, Allen I. Olson, called the meeting to order at 9:00 a.m., and requested Secretary, Vernon Fahy, to present the agenda.

MEMBERS PRESENT:
Allen I. Olson, Governor-Chairman
Florenz Bjornson, Member from West Fargo
Ray Hutton, Member from Oslo, Minnesota
Garvin Jacobson, Member from Alexander
Alvin Kramer, Member from Minot
Guy Larson, Member from Bismarck
Henry Schank, Member from Dickinson
Bernie Vculek, Member from Crete
Kent Jones, Commissioner, Department of Agriculture, Bismarck
Vernon Fahy, State Engineer and Secretary, North Dakota State Water Commission, Bismarck

OTHERS PRESENT:
State Water Commission Staff Members
Approximately 15 persons interested in agenda items

The attendance register is on file in the State Water Commission offices (filed with official copy of minutes).

The proceedings of the meeting were recorded to assist in compilation of the minutes.

CONSIDERATION OF MINUTES OF AUGUST 24, 1982 MEETING - APPROVED

The minutes of the August 24, 1982 meeting were approved by the following motion:

It was moved by Commissioner Schank, seconded by Commissioner Vculek, and unanimously carried, that the minutes of August 24, 1982 be approved as presented.

STATUS REPORT ON WATER PERMIT APPLICATIONS FILED BY BASIN ELECTRIC POWER COOPERATIVE AND THE NOKOTA COMPANY
(SWC Water Permit App. #3370)
(SWC Water Permit App. #3508)

Secretary Fahy reported that his staff is in the process of working with representatives of Basin Electric Power Cooperative and The Nokota Company to develop conditions which could be imposed on the permit itself if the Commission were to act favorably on the applications. One of the criteria necessary from the applicants prior to final action is the filing of an Environmental Impact Statement on each specific project.

Secretary Fahy indicated that a large expression of sentiment has been received from residents in Dunn County requesting that the Water Commission consider holding their meeting in that county when action is taken on The Nokota Company's application.

Governor Olson stated that The Nokota Company has requested timely approval by the Water Commission on their application. Governor Olson also expressed he felt strongly that meetings affecting an area should be held in that particular area; therefore, he recommended, and it was the consensus of the Commission members, that when the next action is to be considered by the Commission on the water permit application filed by The Nokota Company that the meeting be held in Dunn County.

Secretary Fahy stated that after the Environmental Impact Statements have been received and reviewed and the conditions have been developed, he felt he would be in a position to place the items on the agenda for further consideration.

UPDATE ON SOUTHWEST PIPELINE PROJECT
(SWC Project No. 1736)

Robert Dorothy, Project Manager for the Southwest Pipeline Project, updated the Commission members on the activities that the staff has been engaged in since the Commission's last meeting on August 24. He stated that a series of meetings have been scheduled with cities to negotiate the water service contract and thus far five meetings have been held with 13 cities. The meetings have been very good and well attended and Mr. Dorothy indicated that he was encouraged by their reception. He also noted that the second round of meetings have begun for the purpose of discussing the water service contracts in greater detail, and these meetings should be completed by December 1, 1982 in order to have the contracts executed by January 1, 1983.

Mr. Dorothy stated that early in the project, the City of Belfield indicated they did not wish to be included in the study. Recently, that city has indicated it might wish to be included. A meeting was held with the city to explain the project and the agreements of intent. Mr. Dorothy indicated that the city of Belfield was not included in the preliminary design because of their lack of interest, but they could be included in the final design.

A meeting was held with the Ag Coalition group to explain the project. A resolution was adopted by the group supporting the project. The North Dakota Rural Water Association's Board of Directors expressed their support for the project at their quarterly meeting.

The Commission members then entered into a discussion relative to the water service contracts for the Southwest Pipeline Project. The capital repayment component of water service charge was discussed. It has been determined in this study and in the 1978 Southwest Area Water Supply Study that water system revenues will not be enough to pay the cost of the water supply system and that state support or other subsidy will be necessary to construct the system. The project's Financial Consultant has determined that a capital repayment charge of $0.59 per 1,000 gallons is a reasonable charge for the Southwest Pipeline Project based on median income formula by FmHA and a comparison with charges in use by similar water supply systems in North Dakota and neighboring states. The Financial Consultant's analysis shows that: 1) The weighted average capital repayment charge for 12 systems analyzed in North Dakota, South Dakota, and Minnesota is $0.59 per 1,000 gallons which is 0.23% of the per capita income for those 12 systems, and would amount to 0.25% of the per capita income in the project area. 2) The weighted average capital repayment charge for North Dakota systems is $0.76 per 1,000 gallons compared with $0.59 for the three states studied. 3) The weighted average wholesale rate per 1,000 gallons for cities purchasing water from rural systems is $1.61 in North Dakota and $1.38 for the three states studied. These rates include operation, maintenance and replacement (OM&R) costs and capital repayment charges. 4) Weighted average wholesale rates being paid by rural water systems who purchase a water supply from cities are $0.82 per 1,000 gallons for North Dakota and $0.73 in the three-state area.

The Engineering Consultants have recommended an initial capital repayment rate of $0.44 per 1,000 gallons and the Financial Consultant agrees with that recommendation for the following reasons: 1) The estimated OM&R rate of $1.11 per 1,000 gallons is 32% higher than the average North Dakota OM&R rate ($0.84) and 40% higher than the three-state average OM&R rate ($0.79). 2) Per capita income in the project area is 8% lower than the state average. 3) Present bonded debt of cities in the project area is higher per capita than other cities in the state. 4) Water users in the project area are currently paying a higher rate for local distribution OM&R costs than comparable North Dakota cities. 5) The Southwest Pipeline Project water service contracts will provide for an annual adjustment in the capital repayment charge in a direct relationship to the Consumer's Price Index. Water users in the other systems studied are paying a fixed annual lump sum capital repayment charge with devalued dollars regardless of the amount of water usage. Southwest Pipeline Project users will pay an indexed rate per 1,000 gallons based on the actual water use. Assuming an inflationary trend continues, the capital repayment charge per 1,000 gallons will increase and as population increases, the total water use will increase thereby providing an increase in total capital repayment collections.

A capital repayment charge of $0.44 added to an estimated OM&R charge of $1.11 would result in a wholesale water charge of $1.55 based on July, 1981 costs. This compares with a wholesale rate of $1.60 for other North Dakota systems and $1.38 for systems studied in the other states.

It was moved by Commissioner Schank, seconded by Commissioner Jacobson, and unanimously carried, that the State Water Commission approve a capital repayment rate of $0.44 per 1,000 gallons for the Southwest Pipeline water service contracts. The $0.44 is based on a July 1, 1981 base (CPI=274.4). The $0.44 would increase to $0.47 when adjusted to the July 1, 1982 CPI.

The Commission members discussed index factors for adjusting the capital repayment rate. Mr. Dorothy explained that it is proposed that the water service contracts include a provision for an annual adjustment of the capital repayment rate based on a direct relationship to the Consumer Price Index. It is believed that some specific readily available index must be used as an adjustment factor. Data on the per capita incomes of service area residents is available only from the 10-year census and occasional intermediate estimates. The CPI is published monthly and is used by many federal and state programs for economic adjustments. The water service contract would include a provision to allow the State Water Commission to modify the annual CPI adjustment if it finds that the user's ability to pay changed less than the CPI. This situation could occur if the user incomes did not keep pace with the CPI or if the OM&R costs increased substantially more than the CPI.

Commissioner Kramer stated that although the State Water Commission can adjust the capital repayment rate it will be necessary for the Commission to justify those adjustments. He suggested that the Financial Consultants develop criteria for the Commission's use to review the CPI and adjust the rate to the conditions in southwest North Dakota.

Mike Dwyer explained that the draft water service contract does provide a basis upon which the rate could be adjusted: 1) a change in the median income of project water users; and 2) substantial increases in the operation, maintenance and replacement costs.

It was moved by Commissioner Kramer, seconded by Commissioner Larson, and unanimously carried, that the State Water Commission approve the use of the Consumer Price Index as an appropriate index for adjustment of the capital repayment rate for the water service contracts, and that a CPI base of July 1, 1981 (CPI=274.4) be adopted.

The matter of crediting cities for existing debt service for water supply works was discussed. The Financial Consultant has determined that 12 cities in the service area are currently paying off loans or bonded indebtedness for water supply works. The termination date for the payment varies between 1989 for the earliest to 2015 for the latest. The existing debt service, based on the 1980 water use, varies from $0.44 to $0.80 per 1,000 gallons.

Mr. Dorothy explained that it has been proposed that the Southwest Water Pipeline water service contracts include a provision to allow the existing water supply debt service to be credited against the cities' capital repayment for Southwest Pipeline water for a specified number of years. Credit would be allowed only for qualifying water supply works debt payments and would not include debt service on a city's distribution works. Cities would have to apply to the Water Commission for the credit each year and would have to provide the necessary documentation. In no event would the credit exceed the city's total monthly water payment for capital costs.

Commissioner Schank expressed that he is in favor of some sort of an exemption for a city's existing water supply works debt, but questioned whether or not these cities should receive a 100 percent exemption. He suggested that there be either a minimum capital repayment regardless of any debt or else the credit be a percentage of the debt.

After discussion, the general consensus of the Commission members favored that the credit be limited to 75 percent of a city's water supply works qualifying debt.

> It was moved by Commissioner Jacobson, seconded by Commissioner Hutton, and unanimously carried, that the State Water Commission approve the provision for credit to cities for existing debt service for water supply works as part of the water service contracts. The credit allowance should not extend beyond the tenth year of water delivery to the city and the credit should be limited to 75 percent of the qualifying debt.

Mr. Dorothy indicated that there will be four future decisions requiring Commission action: 1) location of an intake structure; 2) capacity for future industrial use; 3) approval of draft legislation; and 4) approval of the engineering and financial consultants reports. He stated that the final report will be printed by September 30, 1982 and the deadline date for transmittal to the Legislative Council is October 1, 1982. It was the consensus of the Commission members that the final report be submitted to the Legislative Council by October 1 with a transmittal letter indicating

that the report is submitted pending final review and approval by the State Water Commission on November 8, 1982, which is the date of the next Commission meeting.

Mike Dwyer distributed and reviewed draft legislation. The bill drafts included authorization of Southwest Pipeline Project; Resources Trust Fund amendments; water use fees; amendments to State Water Commission statutes; special bond issue authorization; and alternative financing.

Mr. Bruce McCollom reviewed with the Commission members additional material that is contained in the final report that he felt would be of interest to the members. Mr. McCollom used charts to assist in his presentation relative to information on capital costs of the project; general statistics of the plan; intake structure; operation and maintenance cost estimates; alternate pipeline construction standards for the State Water Commission; and reserved storage criteria.

CONSIDERATION OF AGENCY FINANCIAL STATEMENT

Matt Emerson presented the financial statement for the agency. He indicated the statement reflects a significant change because as of September 1, 1982 the budget for salaries, wages and operating expenses reflects an approximately $300,000 reduction that was submitted to the Office of Management and Budget as a result of Governor Olson's request for curtailment of the State General fund.

Copies of the State Water Commission's budget request for the 1983-1985 biennium were distributed. Mr. Emerson stated that the budget hearing will be scheduled by OMB within the next month.

UPDATE ON COST SHARING GUIDELINES

Secretary Fahy indicated that copies of the proposed cost sharing guidelines have been mailed to the Consulting Engineers Association, all Water Resource Districts, and anyone who may have an interest in how the State participates in the funding of local water improvement projects.

Copies of the responses that have been received concerning the proposed guidelines were distributed to the Commission members for their information. Secretary Fahy stated that the Water Commission did respond to a number of questions from the Consulting Engineers Association, but to date no final opinion has been received from that group.

NEXT MEETING OF STATE WATER COMMISSION

The next meeting of the State Water Commission was scheduled for November 8, 1982 in Bismarck.

It was moved by Commissioner Bjornson, seconded by Commissioner Hutton, and unanimously carried, that the meeting adjourn at 12:00 noon.

Allen I. Olson
Governor-Chairman

ATTEST:

Vernon Fahy
State Engineer and Secretary