



UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548

COMMUNITY AND ECONOMIC  
DEVELOPMENT DIVISION

Aug 19 1980

Mr. Frank Ellis  
Senior Staff Assistant for  
Contracts and Repayment  
Water and Power Resources Service  
Main Interior Bldg. - Room 7413  
18th and C Street, NW  
Washington, DC 20240

Dear Mr. Ellis:

The U.S. General Accounting Office has initiated a review addressing Water and Power Resources Service's contracting and repayment practices. During this review, we have identified practices and/or policies which I would like to have clarified.

Shown below are a series of questions or statements which we feel are pertinent to our review effort. Your cooperation and assistance in addressing them would be greatly appreciated.

1. Interest rates.

I understand Resources Service sets the interest on capital costs at the rate when construction starts. What constitutes start of construction? Does Resources Service calculate interest during construction as simple interest or compound interest? What decision, if any, has been made to use the treasury rate versus the 3.5 percent rate (i.e., outcome of 1979 IG Report recommendation)? Why? Are there any Resources Service water contracts with interest rates above 3.5 percent? Is the 3.5 percent ceiling realistic in today's world?

2. Administrative costs.

Each region appears to be handling water marketing charges or administrative costs differently. What is the authority or policy related to administrative charges? What standard criteria or base makes up the administrative expense? How long has Resources Service been charging it and what, if anything, existed before it?

BEST DOCUMENT AVAILABLE

*Documents on Contracting and Repayment  
Practices  
etc: Agents of loans  
(Mr. Whelan matter)  
Returned to family through  
...*

92-3839 / 0908-34

3. Delinquent payments.

Section 6, Reclamation Project Act of 1939 specifies a penalty for delinquent payments. We found water contracts also include a 30-day deferral or grace period. What is the basis for this? Are water contractors routinely or infrequently using it? What would be the effect of eliminating it? What is the legal basis for having it?

4. Payments.

Reclamation law cites annual or semiannual payment requirements. We found 28 water contracts within the CVP dating back to 1970 which allow monthly payments. The Solicitor's office has recently informed Resources Service that monthly payments are not legal. Who authorized monthly payments? What is the effect of having them? How do you propose to correct the situation where they exist?

5. Exceptions to 12/29/78 policy statement.

The "Special Work Group Report on Federal Initiatives to Increase Water Conservation and Improve Cost Recovery (2/8/80)" mentioned that the CVP does not conform exactly to the 1978 policy. We found this to be particularly true for the proposed interim Westlands contract which violates:

- a. rate adjustment (5 year) (Approximately 900,000 af. of water is nonadjustable until 2008. What happens when Auburn Dam comes on line in the late 1990's?)
- b. water rate is set at lower than cost of service or ability to pay
- c. interim water policy provisions are not in force

6. Solicitor rulings.

What is the current decision related to the issues on contracting shown below since their submission to the Solicitor's office for decision?

- a. Recovery of deficits from CVP water service contracts (reopen the contracts and recover the deficits).
- b. Interest rates for interest during construction and repayment of the M&I water service investment.

7. What is the legal basis for the rolling 50 concept applied to Central Valley Project, Mid-Pacific Region? Does the application of this concept negatively effect repayment of water service contracts within the 50 year time period authorized? Does it prohibit conversion to repayment contracts under the act of July 2, 1956?