

MINUTES OF THE MEETING  
LONG-RANGE PLANNING SUBCOMMITTEE  
MONTANA STATE  
HOUSE OF REPRESENTATIVES

February 20, 1985

The meeting of the Long-Range Planning Subcommittee was called to order by Chairman Robert Thoft on February 20, 1985 at 7:40 a.m. in Room 420 of the State Capitol.

ROLL CALL: All members were present.

WATER DEVELOPMENT PROJECTS, COAL SEVERANCE TAX LOAN PROGRAM

City of Bozeman, Lyman Creek Water System Improvements, Group C, Project

1

Caralee Cheney (62:A:014), Chief, Water Development Bureau, Department of Natural Resources and Conservation (DNRC) introduced this project by reading from page 154 of the program book (Exhibit 1, 2-12-85).

PROPONENTS: Neil Mann (62:A:033) said the city of Bozeman has two water supplies. The southside supply has a new water treatment facility. The northside reservoir is not covered and the spring filling the reservoir should be developed. He said the construction costs for the project are \$810,000 and the city will furnish 10 percent of the cost.

Senator Fuller (62:A:058) asked if the city will increase its water rates in order to pay back the loan. Mr. Mann said yes. The city does have an application before the Public Service Commission (PSC) for increasing their rates above 12 percent. Senator Fuller asked what will happen if the PSC does not come through with the rate increase. Mr. Mann said they will continue to operate as they have in the past and hope that contamination of the water supply will not occur. Senator Fuller asked how much the water rate will increase in order to pay back this loan. Mr. Mann said he did not know.

Representative Ernst (62:A:082) noted that the northside reservoir provides only 5% of the city's water supply and he asked if the price of the project isn't high considering this percentage. Mr. Mann said in an average year the northside reservoir provides 10% of the city's water supply. He also pointed out that the project will develop the spring and preserve it as a water source.

City of Havre, Water System Improvement, Group C, Project 5

Ms. Cheney (62:A:099) described this project which is on page 159 of the program book.

PROPOSERS: Dick King (62:A:118), Verified Development, said the city of Havre is a member of this organization. Verified Development is a tri-county, economic resource development and planning company. The development company assisted the city of Havre in making this application. Mr. King said if the city gets this DNRC loan the rate increase to water users will be less than 50 percent. This will save the water users \$1.4 million over the life of the loan. Mr. King read a letter from the mayor of Havre about the project and proposed amendments to the Water Development Loan Program (EXHIBIT 1).

Senator Tveit (62:A:197) asked if a small dam will be put on the Milk River as part of this project. Mr. King said yes. Part of the project will repair a weir on the Milk River which was built by the Corps of Engineers. The city has already begun to repair the weir. The total cost of the weir repair is \$650,000. The city has financed \$147,000 of this on an interim basis because the repairs needed to be made prior to the Spring runoff. The balance of the repairs will be funded from a Community Development Block Grant. If the water development loan is approved the city will then be repaid \$147,000.

#### Emergency Applications

##### Town of Denton, Water Supply, Group A, Project 1

Ms. Cheney (62:A:230) explained this project which is the first of the Emergency Applications (EXHIBIT 2). She said this project is considered an emergency application because it was received after the application deadline and while the appropriations bill was being drafted. She said only Emergency Projects were reviewed after the application deadline had passed. Projects not considered emergencies and received after the deadline were not reviewed.

PROPOSERS: Bob Patterson (62:A:278), Mayor, Denton said the community has not lost any babies due to the water quality in Denton, but the water is a health issue in the community and the city is responsible for the health of its citizens. Mr. Patterson said the city water supply is also used by 30 farm families. The city has put town people on water restrictions in the summer and this creates a problem when rural people are allowed to haul water for their livestock. The city has had an injunction filed against it for these restrictions.

Senator Tveit (62:A:320) asked if the \$185,000 is just for a well. Ms. Cheney said yes. The advisory council did not recommend funding for the distribution system because they did not consider it an emergency.

Representative Ernst asked if the city will be back later for a loan for the distribution system. Mayor Patterson said yes, the lines will have to be replaced because of an electrolysis problem.

Senator Fuller (62:A:391) asked how much money is available for the loan program. Ms. Cheney said DNRC has \$250 million of loan authority and \$10 million of this has been used. She said DNRC is recommending \$51 million in loans for the next biennium. Ms. Cheney said 15 percent of the interest income on the trust is put back to offset the interest subsidy on the loans.

Senator Fuller (62:A:412) asked if the state coordinates the bonds which are levied locally. Ms. Cheney said the department does do alot of coordination and has developed generic documents for the sale of bonds. These generic documents are available for local communities to use and if they choose to use them they can put together a bond sale fairly inexpensively. Senator Fuller asked if bonds are pooled at the state level for communities. Ms. Cheney said these bonds are pooled in a way because they are put together in order to get a better bond rating.

Senator Fuller (62:A:434) asked if DNRC and the Department of Commerce have looked into linking their bonding programs. Ms. Cheney said they could not be linked because they get their authority for programs in different ways. She said she does not believe that DNRC's bond counsel would recommend linking the two bonding programs.

Senator Fuller (62:A:457) asked if any local communities have been unable to sell their bonds. Ms. Cheney said this does happen, but it is not frequent. When this happens, the department buys the bonds from the community.

Senator Van Valkenburg (62:A:478) asked if there are any project applications which the advisory council did not recommend for a loan. Ms. Cheney said no because only feasible projects were taken to the advisory council for their review.

East Bench Irrigation District, Gravity Feed Sprinkler System, Group A, Project 4

Caralee Cheney (62:A:502) introduced this emergency project. Information on the project is included in Exhibit 1 of the minutes.

PROPOSERS: Representative Kerry Keyser (62:A:549), District 74, said the potential for a tremendous increase in electrical costs is making this project seem even more valuable. The gravity flow irrigating system will eliminate great energy expenses to the farmers and ranchers in this area. He said this project has been worked on for the last five to six years and if these funds are not made available all of those years of work will be lost. Ron Nye (62:A:594) submitted written testimony on this project (EXHIBIT 3).

Senator Van Valkenburg (62:A:669) asked if this is the same East Bench project heard on February 19, 1985. Ms. Cheney said no. They are the

same type of project, but in different physical locations. The two projects do use the same water source.

Chairman Thoft (62:A:690) asked if the 1983 grant monies have all been spent. Ms. Cheney said no, but the appropriations bill will reappropriate any unexpended 1983 funds for the project. Chairman Thoft said the money reappropriated is from a loan given in 1983 at an interest rate of 3 percent. The applicants are now asking for an additional \$400,000. He asked what the per acre cost of the water will be. Lowell Schellack (62:A:712) said if they get federal financing the cost will be \$22.00 an acre for 37 years. If they only get federal financing the cost will be between \$26.00 and \$30.00 an acre for 30 years.

Senator Van Valkenburg (62:B:005) said he thought the term of the loan is for 20 years. Ms. Cheney (62:B:018) said in the 1983 session the appropriations bill did not specifically address the terms of the loans. She said in 1983 the department used a 30 year loan as an example for projects and many applicants thought this represented a commitment to a 30 year loan. When the department went to sell the bonds they could only be sold for a 20 year period. Ms. Cheney said all the applicants, except for two, were able to accept the 20 year term. East Bench and the Bitterroot Irrigation project could not and were given a 30 year term on their loans. These two projects would not have been financially feasible without the 30 year loan.

Ms. Cheney said this time the appropriations bill has language establishing the loans for a 20 year term. She said the \$400,000 emergency project before the committee is for a 20 year loan.

Representative Kerry Keyser (62:B:044), District 74, also asked to be recorded as a proponent of the East Bench Irrigation District, McHessor - Dry Gulch Gravity System, Group A, Project 4. This project was heard by the committee on February 19, 1985.

Chairman Thoft (62:B:060) asked if there is any legal description for the percentage of the coal tax money which is to be spent on agricultural projects and municipal projects. Ms. Cheney said the only breakdown in the codes is for 50% of the funds going to activities and 50% to projects. Senator Van Valkenburg asked what the difference is between an activity and a project. Ms. Cheney said an activity could be a study of groundwater, where a project is the actual installation of a well.

Milk River Irrigation District, Tiber Dam Power Project, Group D,  
Project 2

Senator Van Valkenburg (62:B:072) asked Ms. Cheney to review the Milk River Irrigation District's project proposal. Several members found it interesting that there were no representatives of this \$17.8 million project available for testimony. Ms. Cheney said the applicants were willing to come to Helena, but they did not think the project was in any jeopardy of not being funded. Ms. Cheney said the loan will not be at a subsidized interest rate and the applicants feel they can pay it back and make a profit on the project.

Caralee Cheney said Representative Ted Schye, District 18, would like the record to show him as a proponent of this project.

Senator Van Valkenburg (63:B:088) asked what happens if the applicants default on the loan. He asked if the loan is then paid out of the Coal Severance Tax Fund. Ms. Cheney said yes, but the department does have some recourse in trying to get loans paid. In municipalities, water can be shut off until the loan is current and the department does secure loans through the use of liens. Chairman Thoft asked what security the state would have on the Milk River project. Ms. Cheney said the irrigation district can file liens against members' land and the department also has assignment of the power purchase contract. Chairman Thoft pointed out that the first loan in Group D is to DNRC and he wondered what security the state would have on a loan to the department. Ms. Cheney said she did not know if there is lien authority in this project and she will have to research it to get the answer to this question.

Caralee Cheney (62:B:126) reviewed the Tiber Dam Power Project with the committee. A description of the project can be found on page 173 of the program book. Ms. Cheney said the avoided costs have decreased. She said most hydropower developers feel the decrease in avoided costs will prohibit the development of hydropower projects of this size. She said the applicants did not get a power sale contract with Montana Power before avoided costs were decreased.

Ms. Cheney said the PSC now bases avoided costs on energy conservation and not the cost of Colstrip III.

Chairman Thoft (62:B:180), asked Ms. Cheney to explain how municipalities receive preference in receiving a license for hydro development. Ms. Cheney said the Federal Energy Regulatory Commission (FERC), in the past, has given licenses for development to municipalities. The municipalities made agreements with private developers to do the license application and then repaid the developers for their work. The private developers and the municipalities then agree on a split in the profits made from the development of the hydropower plant. FERC has said this type of arrangement is not how the municipal preference licenses were intended to be used.

Senator Van Valkenburg (62:B:232) said he wondered if there will be a sufficient demand for electricity in the future. He said he wonders if the applicants will be able to sell the electricity this project will produce. Many people think there is an oversupply of electricity right now with the Colstrip plants. Senator Fuller said under the Public Utilities Regulatory Policies Act (PURPA) the Montana Power Company has to buy the power produced at the Tiber Dam at the avoided cost rate set by the PSC. Ms. Cheney agreed with this statement.

Some of the other topics of discussion on this project were: 1) Senate Bill 394, which would set the avoided cost of power at zero when there is an oversupply; 2) the effect of inflation on the cost of the project; 3) DNRC's questions about the legality of Senate Bill 394, given the definition of avoided cost in PURPA; and 4) project feasibility.

Chairman Thoft (62:B:378) asked if DNRC recommended funding for all emergency projects applications. Ms. Cheney said they recommended partial funding for the Denton project and no funding for the Town of Cascade because they did not feel it was an emergency. (See Exhibit 2 for descriptions of these two projects.)

Chairman Thoft (62:B:413) asked what DNRC's feelings are for granting loans at a 3% interest rate. Ms. Cheney said she thinks there is some need to look at irrigation projects separately from municipalities based on the ability of different applicants to pay back loans.

Representative Ernst (62:B:436) asked if the subsidy money is available for general fund use. Ms. Cheney said 15% of the interest income is directed back to the trust. She said there is not a direct offset between the money that goes back into the trust and the money that pays for the interest subsidy.

Senator Van Valkenburg (62:B:485) said he has some question about providing these interest subsidies just because applicants water rates will be more than 200% of the statewide average. He said the 3% loans will even go beyond this. He said he thinks the committee essentially will be deciding that social policy says these projects should be subsidized because they are more important than others. He said he wonders just how far the state should go in subsidizing projects.

Caralee Cheney (62:B:539) said Larry Fasbender, Director, DNRC feels the Water Development Program was originally developed to be an agricultural program. Through the years the funding has leaned more toward municipalities because they are better able to repay their loans. Representative Ernst (62:B:599) suggested that the money could be statutorily split so that both agricultural and municipal projects receive equal amounts of funding. Ms. Cheney said rather than making a statutory

split the department could deal with project viability based on recommended interest rates and, therefore, deal with agriculture projects differently. She said if there was a statutory split there might not always be enough good projects in each category for use of funds.

Senator Fuller (62:B:650) said there are \$278,000 in university personnel costs being funded from water development projects.

Town of Ekalaka, Water System Renovation, Group C, Project 4

Ms. Cheney (62:B:685) introduced this project which is on page 158 in the program book.

PROPONENTS: Alyce Kuehn (63:A:001) said the town of Ekalaka desperately needs to improve its water distribution system. She said fire protection is an issue. Some of the original lines in the system are so thin that they are splitting. This project will improve the distribution system. The risk of fire hazards will be considerably lower and residents fire insurance ratings can be lowered once the system is installed. She said Ekalaka is the county seat and, therefore, it is a stable community. Ms. Kuehn also said the rural areas around Ekalaka rely on the town as their water source. She said the city sells 50,000 gallons of water per month to Box Elder.

Senator Van Valkenburg (63:A:030) asked what is the city's source of water. Ms. Kuehn said Ekalaka has four deep water wells in the Foxhill/Sands Aquifer. Senator Van Valkenburg asked what the people of Ekalaka currently pay for water. Ms. Kuehn said the minimum charge, which includes 2,000 gallons, is \$7.00. She said for every 1,000 gallons used above the 2,000 there is a charge of \$.85. Senator Van Valkenburg asked what the rate will be increased to in order to cover the loan repayment. Ms. Kuehn said the \$7.00 flat rate will double. She said the town has closely checked the meter readings and the number of gallons being pumped and they found that less than 10% of the water being pumped is not being billed.

Chairman Thoft (63:A:049) asked if there are any wells at Box Elder. Ms. Kuehn said they use dams and the creek, there are no wells.

Representative Ernst (63:A:059) asked if there will be any possible coal development in this area. Ms. Kuehn said the Bureau of Land Management talked about breaking ground north of Ekalaka for coal development. She said she was told this will probably not take place until 1989. Most of this development will be in Fallon County and not Carter County.

Ms. Kuehn (63:A:085) said some of the people in the rural areas haul water, from Ekalaka, 60 miles one way. She said the people in Carter County basically can rely on their own resources, but they cannot handle a project of this magnitude.

Ms. Kuehn also said the Department of Health is in support of this project.

Chairman Thoft (63:A:108) asked what the quality is of the water. Ms. Kuehn said it is 99% pure and very soft.

Hill County Water District, Rural Water Supply, Group C, Project 6

Ms. Cheney (63:A:120) described this project which is on page 161 of the program book.

Representative Ernst (63:A:148) asked if the Marias River has a constant flow. Ms. Cheney said it has a good supply of water, but it may need to be treated.

Senator Van Valkenburg (63:A:175) made a motion to consider the remainder of the loan program projects on the basis of information submitted by DNRC in the program book. The motion passed unanimously.

Senator Fuller asked if all the project applicants were notified of hearing dates. Ms. Cheney said yes.

GENERAL DISCUSSION: For the remainder of the meeting the committee had general discussion on the following topics:

1. Senator Van Valkenburg's long-range building proposal for the university system (63:A:214 to 63:A:318).
2. Kleffner/Child Ranch Park Acquisition and the Fort Benton Agricultural Museum (63:A:319 to 63:A:692). Chairman Thoft told committee members to be prepared to take executive action on the park acquisitions following the four day break.
3. Alternative Energy and the Legacy Program (63:A:700 to 63:A:714).

During this part of the meeting Chairman Thoft told the committee secretary she did not need to include a detailed description of the discussion and, therefore, did not need to take notes (63:A:308).

There being no further business before the subcommittee the meeting was adjourned at 9:53 a.m.

  
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ROBERT THOFT, Chairman



DAILY ROLL CALL  
LONG RANGE PLANNING SUB COMMITTEE

49th LEGISLATIVE SESSION -- 1985

Date February 20, 1985

NAME	PRESENT	ABSENT	EXCUSED
Rep. Robert Thoft, Chairman	X		
Sen. Fred Van Valkenburg, Vice Chair	X		
Sen. Dave Fuller	X		
Sen. Larry Tveit	X		
Rep. Francis Bardanouve	X		
Rep. Gene Ernst	X		

# CITY OF HAVRE

Phone (406)265-6719  
P.O. Box 231  
HAVRE, MONTANA 59501

February 15, 1985

Members of Long Range Planning Subcommittee  
Montana Legislature  
Helena, Mt. 59601

Dear Legislators:

The City of Havre submitted a request for a loan under the Water Development Program in June, 1984. We hope to complete several critically needed improvements to our water system in a project that will begin in 1985. The Department's Advisory Committee recommended that Havre receive a \$2,590,000 loan from the Water Development Program's Coal Severance Tax Bond program. The Committee also recommended that the interest rate on our loan be set at two percentage points below the rate at which the state bond is sold for in the first seven years of the 20 year term, and at the rate at which the state bond is sold for the remaining 13 years.

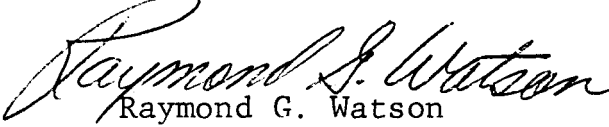
Although these recommendations would save the customers of Havre's water system approximately \$1.4 million over the life of the bond issue when compared to a regular bond issue that the City would sell itself, the proposed amendments merit further attention. If the subsidy for the City's loan were increased to four percent from the two percent originally recommended, the savings to Havre would be substantially increased. If the four percent subsidy were extended over the entire life of the loan, the total savings would be in excess of 2.4 million dollars.

The FY86 Federal budget recently submitted by the Reagan administration would have a devastating impact on our economy. The elimination of Federal support for Amtrak and Big Sky Airlines would further weaken our transportation links to the State and nation. Other proposals, such as the elimination of Revenue Sharing and Community Development Programs, would leave us with the dilemma of either eliminating many services or substantially raising local taxes. Many options for improving

our community would disappear. These budget proposals have prompted us to take a second look at the Water Development Program. In light of them, we have decided to support the amendments described above. If only part of the Reagan budget is approved, it is clear to us that local taxpayers will suffer. For this reason, it is incumbent on us to seek the best possible terms for our upcoming water project.

We wish to emphasize that the amendments would not exceed DNRC's capabilities or Coal Trust Fund authority. If the original recommendations are approved, the cost to DNRC will be approximately \$600,000 per year for the projects recommended by the Advisory Committee. If the proposed amendments are accepted, that cost will increase to \$1,000,000. This is still well below their capability, which is estimated at \$3-4,000,000 per year.

Sincerely,

  
Raymond G. Watson  
Mayor-City of Havre

RCW/11f

**Exhibit #2**  
**2-20-85**

APPLICANT NAME: Town of Denton

PROJECT/ACTIVITY: Water System Supply and Distribution System Improvements

GRANT AMOUNT REQUESTED: \$882,000

TOTAL PROJECT COST: \$885,000

GRANT AMOUNT RECOMMENDED: \$882,000

PROJECT DESCRIPTION:

In October of 1984, some three months after the deadline for filing of applications for coal severance tax bond loans, the Montana Department of Health and Environmental Sciences issued a compliance order to the applicant requiring the Town to immediately begin work on solving its water supply problems or face court action. The Town's existing water supply, a spring located about 3.3 miles southwest of the community, contains excessive levels of nitrates. Nitrate levels in the spring have at this time exceeded the maximum levels allowed by the Safe Drinking Water Act by as much as 250 percent. High nitrate levels represent a health risk to young children. The existing spring source also happens to contain excessive levels of flouride but the high levels of flouride are not of as much concern as the high levels of nitrates.

Another problem faced by the Town is a cast iron and steel pipe water distribution system that is in a deteriorated condition due to the effects of electrolysis. The area soils are apparently corrosive and only corrosion resistant piping such as PVC can be expected to last.

The project then provides for solving two major water system problems in Denton, i.e., developing a suitable water source and replacement of essentially the entire water distribution system with FVC pipe. The Town has hired a consulting engineer to prepare a preliminary engineering report on solving the two problems. At present, the engineer feels there is a good chance of developing a well into the Kootenai formation that can be blended with the spring water with a resultant acceptable quality water. The Kootenai formation is quite deep, however (approximately 1,900 feet) and the exact quantity and quality of water in the formation is uncertain. Drilling to the Kootenai will be expensive and there is no guarantee that sufficient amounts of high quality water will be found. The Kootenai formation well is risky but may be recommended by the Town's consultants as the most desirable and reasonable alternative source of water and the alternative that the Town should pursue. An alternative solution would be to treat a portion of the existing water supply with an ion exchange or reverse osmosis unit and then blend the treated portion with the untreated portion to meet the drinking water standards. This alternative would be somewhat energy and manpower intensive as well as rather complicated to operate. The Town's engineers will likely lean toward recommending the less complicated alternative. Solving the Town's water source problem will cost an estimated \$185,000, including engineering, legal, administrative, and contingency costs.

Replacing essentially all of the Town's water distribution system and the line from the spring into the community will be quite costly. The estimated cost to solve the deteriorated distribution system problem is \$700,000, including engineering, legal, administrative, and contingency costs.

#### EMERGENCY APPLICATION RATIONALE:

The Town was issued the compliance order to solve its water supply problem after the original deadline for application for coal severance tax bond loans. An emergency situation has been created by the issuance of the order. The Town must upgrade and needs to secure a subsidized interest rate loan such as offered by the coal severance tax bond loan program in order to be able to afford the mandated upgrading program.

Upgrading the water distribution system, although apparently badly needed, will be quite costly and possibly even unaffordable to the Town. It doesn't appear to present the same level of urgency as the new water source since upgrading of the water distribution system has not been mandated.

#### RECOMMENDATION:

It is recommended that the Town be offered a loan of up to \$882,000 at four percentage points below the rate at which the state bond is sold for the first seven years and the bond rate for the remaining 13 years. It should be recognized, however, that the Town may only use the amount needed to solve its water supply problems since it is the priority need and the water distribution system upgrading project may be unaffordable.

APPLICANT NAME: Town of Dodson

PROJECT/ACTIVITY: New Water Well

LOAN AMOUNT REQUESTED: \$145,398

TOTAL PROJECT COST: \$145,398

LOAN AMOUNT RECOMMENDED: \$170,000

PROJECT DESCRIPTION:

The Town relies on a single well located about one mile north of the community for its water supply. In August of 1984 the well essentially went dry for a period of time, presumably as a result of drier-than-normal climatic conditions of the last year and the impacts of changes in methods of operation of nearby irrigation wells. The Town cannot afford to lose its only source of water.

The project consists of drilling another well to be used as a supplemental water source. The well will be located about 2,000 feet to the west of the existing well. A pipeline will be constructed between the new well and the existing transmission line that leads from the existing well into the community of Dodson. The cost of the new well and pipeline is estimated at \$145,398, without engineering fees and contingencies.

EMERGENCY APPLICATION RATIONALE:

The emergency situation was created by the Town's only source of water essentially going dry in August of 1984 (one month after applications were due for the coal severance tax bond loan program). The Town desperately needs to secure financing for the project as soon as possible to allow drilling of the second well before late summer of 1985.

RECOMMENDATION:

It is recommended that the Town be offered a loan of \$170,000 at four percentage points below the rate at which the state bond is sold for the first seven years and the coal severance tax bond rate for the remaining 13 years. The recommended loan amount was increased to provide sufficient funds to hire a consultant.

APPLICANT NAME: Geraldine County Water District

PROJECT/ACTIVITY: Rural Water System

LOAN AMOUNT REQUESTED: \$ 313,910

TOTAL PROJECT COST: \$2,147,110

LOAN AMOUNT RECOMMENDED: \$ 313,910

PROJECT DESCRIPTION:

The Forty-Eighth Montana Legislature authorized \$1,733,200 from coal severance tax bond proceeds and \$100,000 from the water development general obligation bond program to design and construct a rural water system to serve approximately 65 rural users in the general vicinity of Geraldine, Montana. The Geraldine Rural Water District (District) proposes to jointly develop a "Ranney Method" well along with the City of Fort Benton and pump produced water from Fort Benton up into the area around Geraldine.

Recent cost estimates from the District's engineers place the project cost at about \$2,147,110. The additional loan authorization is requested to insure that sufficient funding is secured to complete the project as planned.

EMERGENCY APPLICATION RATIONALE:

Design is underway on this project and commencement of construction is projected for the summer of 1985. The District originally thought that its loan authorization amount of \$1,833,200 (total) was sufficient to complete the project. In addition, the District felt that, if necessary, residual funding could be obtained from the FmHA.

Recent cost estimates show that the project costs will likely exceed the DNRC loan authorization amount and long-term FmHA financing is currently at a rate of over ten percent. The District qualifies for long-term financing at a lower interest rate with the DNRC coal severance tax bond proceeds loan and would prefer to secure its residual financing with this program.

RECOMMENDATION:

It is recommended that the District be offered a loan of \$313,910 at four percentage points below the rate at which the state bond is sold for the first seven years and the coal severance tax bond rate for the remaining 13 years.

APPLICANT NAME: Hungry Horse Water and Sewer District  
PROJECT/ACTIVITY: Water System Improvement  
LOAN AMOUNT REQUESTED: \$762,430  
TOTAL PROJECT COST: \$762,430  
LOAN AMOUNT RECOMMENDED: \$762,430

PROJECT DESCRIPTION:

The water system presently serving the unincorporated community of Hungry Horse is owned and operated by a private water company. The existing water system consists primarily of second-hand four- and six-inch wooden mains installed in 1947-48. Approximately 6,320 feet of six-inch water pipe, a 100,000 gallon steel storage tank and a well were added to the system in 1973-74. The present water system is in very poor condition and leaks up to 90 percent of the water pumped into the system. Leakage is so severe that the well pump runs 24 hours per day, every day of the year and cannot fill the storage tank. Most users on the system experience inadequate quantities of water for domestic needs and low water pressure. Of the 34,460 feet of water line in the system, approximately 27,210 feet (80 percent) is either of less than acceptable size (6-inch diameter) or is leaking wood stave pipe or both. Past utility work has shown that much of the old wooden pipe has insufficient cover (as little as 22 inches in some areas) to prevent freezing in the winter. The massive amount of system leakage and resultant water movement is all that keep the system from freezing during winter conditions. In addition, the water system is currently under a "boil order" from the Montana Department of Health and Environmental Sciences because of possible contamination. Because of the tremendous problems residents have had with the present water system for many years, the District was formed in 1983 to acquire the water system and undertake the task of upgrading the system. The District hired a consulting engineer to evaluate and appraise the present water system, prepare a water system master plan and aid the District in securing project financing. The system has been evaluated and appraised and the master plan is complete.

The project consists of the following items:

- a) purchase the existing water system for a negotiated price of \$125,000;
- b) replace approximately 19,400 feet of water line, with appurtenances;
- c) install 28 fire hydrants and 24 gate valves;
- d) install water meters and service lines; and
- e) make minor well house control and storage tank improvements.

The proposed project will cost an estimated \$762,430. It should be noted that the above project includes only the highest priority improvements in order to keep the project affordable. Other improvements needed include additional storage, another well, additional small diameter line and additional fire hydrants. The lower priority improvements will have to be included in a future project.

EMERGENCY APPLICATION RATIONALE:

The District's project appeared to be best suited for the FmHA loan and grant program. In May of 1984, the District made application to FmHA for a loan and grant. At the time of application, the District qualified for a grant of up to 75 percent of eligible project costs and a long-term loan at 7.25 percent. In October of 1984, [three months after the coal severance tax bond loan application date], the



District was informed by FmHA that because of new rules that took effect October 3, 1984 the District was no longer eligible for a grant or a low interest rate of financing.

Because of the high cost of these repairs officials of the District feel there is a risk the users will not authorize needed repairs unless every effort has been made to reduce costs. Therefore, the District feels they need consideration under this program.

RECOMMENDATION:

It is recommended that the District be offered a loan of \$762,430 at four percentage points below the rate at which the state bond is sold for the first seven years and the coal severance tax bond rate for the remaining 13 years.

FULL AMOUNT RECOMMENDED BY ADVISORY COUNCIL BY PHONE POLL JANUARY, 1985

APPLICANT NAME: Town of Judith Gap

PROJECT/ACTIVITY: New Water Well

LOAN AMOUNT REQUESTED: \$100,000

TOTAL PROJECT COST: \$100,000

LOAN AMOUNT RECOMMENDED: \$100,000

PROJECT DESCRIPTION:

The town relies on three wells located within the community for its water supply. In September of 1984, two of the wells became contaminated with gasoline and had to be taken out of production. In January of 1985, the community's final well became contaminated with gasoline. All of the wells have now been taken out of production for use as drinking water but remain available for nonconsumptive domestic uses and fire protection. Residents are now hauling water for drinking and culinary purposes.

The project consists of finding an alternative source(s) of water for the community. The requested loan is to cover the costs associated with searching for and development of a new source(s), possibly a deep well. Cost estimates are very preliminary.

EMERGENCY APPLICATION RATIONALE:

The emergency situation was created by the town's only source of water, three wells, becoming contaminated with gasoline in September of 1984 through January of 1985 (several months after applications were due for the coal severance tax bond loan program). The town needs a secure source of funding to provide for development of a new municipal water supply as soon as possible.

RECOMMENDATION:

It is recommended that the town be offered a loan of \$100,000 at three percentage points below the rate at which the state bond is sold for the first seven years and the coal severance tax bond rate for the remaining 13 years. Any reduction in the loan amount will result in recalculations of the loan interest rate. This rate will be based on the resulting deviation of the local utility fees from the state average.

APPLICANT NAME: City of Conrad

PROJECT/ACTIVITY: Water System Improvement (Storage)

LOAN AMOUNT REQUESTED: \$300,000

TOTAL PROJECT COST: \$300,000

LOAN AMOUNT RECOMMENDED:

PROJECT DESCRIPTION:

The City feels it presently has insufficient treated water storage capacity and would like to increase storage capacity from 1.0 MG to a total of 2.0 MG. A recent evaluation of storage needs by the City's engineer has recommended that the City double its present storage capacity. The drought conditions that have existed in the north-central area of Montana has caused problems with the City's source of water, Lake Francis, and has increased the City's desire for additional storage. The City proposes to construct a 1.0 MG steel reservoir adjacent to the City's existing storage tank at a total cost of \$300,000.

EMERGENCY APPLICATION RATIONALE:

The emergency rationale given by the applicant is that the City's present storage facilities are undersized.

RECOMMENDATION:

The Department does not concur with the emergency conditions rationale. It would appear that sufficient storage capacity exists to meet the City's present needs. The Department would concur that additional storage capacity will probably be needed within the next 20 years. An emergency situation has not been shown and the Department sees no real need for the requested loan at this time. It is recommended that the City apply for the loan during the next regularly scheduled application period.

NOT RECOMMENDED BY ADVISORY COUNCIL 12/14/84

APPLICANT NAME: Town of Cascade

PROJECT/ACTIVITY: Water Distribution System Improvements

LOAN AMOUNT REQUESTED: \$765,000

TOTAL PROJECT COST: \$780,000

LOAN AMOUNT RECOMMENDED:

PROJECT DESCRIPTION:

Over the past five years the Town has experienced an increasing number of water line failures. This year alone the Town has repaired 27 water main breaks. Deterioration of the old cast iron and steel pipes are apparently a result of the effects of electrolysis. The existing water system is also reported to have undersized lines in many parts of the community and an insufficient amount of properly sized fire hydrants.

The Town proposes to install approximately 23,300 feet of 6-inch, 8-inch, and 10-inch PVC water line, 52 gate valves, 31 fire hydrants and appurtenances. The entire project will cost an estimated \$780,000, including engineering, legal, administrative, and contingency costs. The proposed project would appear to be unaffordable to the Town. User fees would have to be increased by over \$20 per month to pay for the project, at a subsidized interest rate of six percent.

EMERGENCY APPLICATION RATIONALE:

The emergency rationale given by the applicant is that because of the increase in water line repairs during the year and the resultant increase in maintenance costs and street damage, as compared to previous years, an emergency situation exists.

RECOMMENDATION:

The Department does not concur with the emergency conditions rationale. There is obviously a problem with the deteriorated condition of the Town's water distribution system. The problem has, however, existed for several years and was known to be getting progressively worse over the years. There is no reason that the Town couldn't have applied for a coal severance tax bond loan at the time applications were due. It also would appear that the project would be unaffordable to the applicant and the Town should pursue grant funding from CDBG, FmHA, or other sources to make the project affordable.

2-20-85

## Gravity System No. 1

## East Bench Irrigation District

The East Bench Irrigation District of Dillon, Mt. is in the process of converting 6400 acres of land from pump sprinkler irrigation to gravity pressurized sprinkler irrigation. The resulting conversion will eliminate the need for 2060 HP of pumps on the project and make the project more cost effective. Financing of the project by the members is based solely on electrical energy savings.

The East Bench Irrigation District made application for funding from the Federal Government 5 years ago through the Bureau of Reclamation's Small Projects Act. However, that program did not materialize and the District made application to the 1983 Legislative Session for either partial or total financing under HB 885. The financing was approved during that legislative session and it is being requested that it be continued during this legislative session in the amount of \$3,230,000. The project is still under consideration by the Federal Government and is, in fact, in the 1986 budget that the President has forwarded to Congress. However, it is not assured that the District will be in the budget until July when the Appropriations Bill is expected to be signed.

It is also requested that an additional \$400,000 in funds be authorized by the 1985 Legislative Session to help finance this project. We feel that this is needed to construct the project as the \$3,230,000 amount was the estimated 1983 construction cost. It is now two years later and construction

costs have gone up. Our Engineer's Estimate indicates that it will now take \$400,000 more to adequately build the project. This is a 6% per annum increased cost of construction.

We are still hopeful that the Federal Government will retain the project in their 1986 budget. However, in the event that they don't, and we have had many disappointments in the past, the State program of total financing would still give us the opportunity to complete our project.

WITNESS STATEMENT

NAME DICK KING BILL NO. \_\_\_\_\_  
ADDRESS Box 1549 HAVER, MT DATE 2-20-85  
WHOM DO YOU REPRESENT? CITY OF HAVER  
SUPPORT X OPPOSE \_\_\_\_\_ AMEND POSSIBLY

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.

Comments:

## VISITORS' REGISTER

LONG-RANGE PLANNING SUBCOMMITTEE

COAL SEVERANCE TAX  
BILL NO. BOND PROGRAM

DATE FEBRUARY 20, 1985

SPONSOR

[illegible]

IF YOU CARE TO WRITE COMMENTS, ASK SECRETARY FOR WITNESS STATEMENT FORM.

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY.