D-5120
WTR-1.00

MAR 25 1994

MEMORANDUM

To: Regional Director; PN, MP, LC, UC, GP
Attention: 100

From: For Daniel P. Beard (sgd.) Joseph L. Miller
Commissioner

Subject: Office of Inspector General Audit--Repayment of Irrigation Investments by Water Districts; 93-I-468, Issued February 8, 1993

The three recommendations included in the subject audit report were concurred in by Reclamation. The third one recommends that the regions more closely monitor the collection process to verify that interest on delinquent accounts is properly charged and that prescribed actions are taken to help ensure delinquent accounts are collected in a timely manner. Reclamation's concurrence with this recommendation was implemented by Finance and Accounting Division Directive No. COL-1-92 dated December 3, 1992. Addressing the other two recommendations is the purpose of this memorandum.

The first pertains to the establishment of appropriate advance payment terms required when renewing or executing water service contracts. Public Law 96-375 granted authority to Reclamation to make advance payment terms for different time periods (i.e., monthly or bimonthly along with semiannual or annual). The length of the time period for advance payment is discretionary.

Considering the intent of the legislation and the objectives of the Administration, Reclamation's policy, effective immediately, will be to establish the advance terms as semiannual or annual payments. A shorter advance payment period may be approved by me only if you document that there would be undue hardship upon a water service contractor.

The second recommendation calls for periodic adjustments to water service and repayment rates based on changes in irrigators' ability to pay. This recommendation pertains both to new repayment contracts and to modifications of existing contracts when additional Federal benefits accrue.

In response to this recommendation it will be Reclamation's policy, effective immediately, to include a provision for periodic reexamination of ability to pay and for resulting adjustments in water service and repayment rates in all new contracts and in all existing contracts when they are amended. The period for this reexamination shall be every five years.

This contract term should provide that rates will be adjusted upward based on increases in irrigators' ability to pay. It should also provide that the rates will be adjusted downward if the ability to pay declines; provided, however, that the downward adjustment cannot result in the lengthening of the repayment period beyond that allowed by Reclamation law. The basis of negotiation should include the mechanism for setting the floor or lowest rate which may be established by the adjustment provision in the contract. This policy shall apply unless otherwise directed by project-specific legislation or by a determination that Reclamation's action conflicts with the State law governing a contract.

The first priority for use of any funds received from increased payments shall be to reduce the assistance provided from power revenues. The second priority shall be to reduce the repayment period. Since this is utilization of payment capacity as required by the Reclamation Project Act of 1939, this policy shall not be construed as "authorizing or permitting lump sum or accelerated repayment of construction costs" as described in the Reclamation Reform Act of 1982.

If there are any questions regarding this policy, please contact Larry Schluntz, D-5120, at (303) 236-9336, extension 260.

bc: W-1000, W-1010, W-6400, W-6500, W-6600

D-1000, D-5000, D-5010, D-5020, D-5100, D-5120, D-5120 (Schluntz), D-7000

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