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NEVADA LEGISLATURE - 54TH SESSION

SENATE COMMITTEE ON
FEDERAL, STATE, AND LOCAL GOVERNMENTS

Minutes of Meeting Held
March 15, 1967
1:00 p.m.

The 22nd meeting of the Senate Committee on Federal, State, and Local Governments was called to order at 1:05 p.m. on Wednesday, March 15, 1967, by Chairman Gibson.

All committee members were present.

Also present were: Senator B. Mahlon Brown
Senator M. J. Christensen
Mr. Russ McDonald, Legislative Counsel
Mr. Ivan P. "Pat" Head, Administrator,
Colorado River Commission of Nevada,
Las Vegas
Four persons who did not participate in
the discussions

The Chairman told Mr. Head that the committee had questions to ask him about the Colorado River Commission bills, Senate Bills Nos. 303 and 305, particularly with respect to general obligation bonds. Mr. Head distributed to the members copies of a letter dated March 14, 1967 (copy attached to these minutes), which he said he had this day (March 15) submitted to Governor Laxalt. Mr. Head said he and CRC counsel, Mr. Robert Jones, had prepared the letter jointly. He read the letter aloud to the committee. Lengthy discussion followed as to the debt limit, the nature and extent of the state's obligations under various types of bonds that might be issued, and about the present status of contracts with the federal government and water users (none signed yet, but CRC has approved as to form). The Chairman asked Mr. Head to furnish the committee with copies of the proposed contracts. He said he would.

Senator Brown, upon being asked if he had questions, said he relied on the CRC to do what is right for the State of Nevada. He then commented that the State should not shut out the possibility of accomplishment of the project by private industry. He said that when the CRC, about a year ago, thought the federal government was delaying in funding the project, they invited bids throughout the country, and came up with two or three proposals from responsible firms. Two of these firms, International Utilities and Morrison-Knudsen, came in at considerable expense to bid on this work last year, on a private financing deal, in case the federal government didn't come up with funds. Bids were

submitted by both these large groups, for a definite amount. Both bids provided for a package deal that would include the treatment plant and in which they would do the entire project, bond it, and carry it to completion. Despite these bids, the CRC felt there was a good chance the federal government would provide the money, and they got \$1 million (later cut to \$500,000) appropriated for the preliminary engineering. The President's message to Congress indicates he has included some \$6 million for the first stage of the project, with a program for budgeting continuing appropriations through the fiscal year 1971. It will not be known until this summer or early fall whether the \$½ million will be appropriated. The rate of interest on these funds is 3½%. Senator Brown's concern was that responsible private industry is ready to proceed immediately, at whatever interest rate the current money market calls for, and, further, that if Nevada does not use the water, the state will have California, Arizona, and New Mexico trying to use the water.

Mr. Head stated that the CRC did not ask for the proposals as such; that the proposals were submitted to the CRC at the request of the two firms. He said both proposals were good; that the Morrison-Knudsen proposal was especially good; that the CRC had told both groups the CRC was under an obligation to do the best it could for the best benefit of Nevada; that they would go ahead and see if the federal government, which offered a low interest rate, would go along, and if it would not, the CRC would "go private". He said the CRC had not said no to anyone, that the two firms could "still sit in the wings and watch".

Further discussion ensued, on federal budgeting practices and on interest rates (both federal and current market rates). Mr. McDonald and Mr. Head then left the meeting (at 1:55 p.m.).

The committee acted as follows on the two CRC bills:

S.B. 305: Authorizes the Colorado River commission of Nevada on behalf of the state to acquire water facilities and to issue securities therefor. Introduced by Clark County Delegation.

DISPOSITION: Senator Monroe moved that the committee amend the bill to increase the total authority to \$52 million and to eliminate subparagraph (a) on lines 3 and 4, page 3. Senator Hecht seconded. The motion passed unanimously.

S.B. 303: Authorizes Colorado River Commission to construct and operate water service facilities. Introduced by Clark County Delegation.


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Mr. McDonald had commented during the discussions at this meeting that this bill could be tabled.

DISPOSITION: Senator Young moved that the bill be held in committee; Senator Bunker seconded; passed unanimously.

The meeting adjourned at 2:00 p.m.

Respectfully submitted,


Louise Glover, Secretary

I certify that the foregoing minutes are correct.

Senator James I. Gibson
Chairman

ROBERT B. GRIFFITH, CHAIRMAN
LAS VEGAS, NEVADA

IVAN P. HEAD, ADMINISTRATOR
LAS VEGAS, NEVADA

THOMAS R. RICE, SECRETARY
LAS VEGAS, NEVADA

PHONE 384-5135



ELMO J. DERICCO, MEMBER
CARSON CITY, NEVADA
THEODORE R. LAWSON, MEMBER
LAS VEGAS, NEVADA
PAUL D. McDERMOTT
LAS VEGAS, NEVADA
FRANK M. SCOTT, MEMBER
CALIENTE, NEVADA

COLORADO RIVER COMMISSION
OF NEVADA

P.O. Box 1748
LAS VEGAS, NEVADA 89101

March 14, 1967

The Honorable Paul Laxalt
Governor of Nevada
State Capitol
Carson City, Nevada 89701

Dear Governor:

We have a letter dated March 6 from the Director of Administration, Mr. Barrett, regarding proposed legislation to authorize the Colorado River Commission, on behalf of the State, to issue bonds for the construction of the Southern Nevada Water Project and the treatment facility in connection therewith. Inasmuch as the matters mentioned in Mr. Barrett's letter are of vital concern to your office, we felt that our answer should be addressed to you with a copy to Mr. Barrett.

As you know, the Congress of the United States has approved the construction of the Southern Nevada Water project and has appropriated the initial funds for design. It is anticipated that the current session of Congress will appropriate the money necessary to initiate construction and will thereafter appropriate funds to construct the project on a reasonable construction schedule.

The State Legislature, in its 1963 and 1965 sessions, in amending NRS 538.040 to 538.260, authorized and directed the Commission to request from the United States the water facilities included in the Southern Nevada Water Project and to enter into a contract with the United States for repayment of the investment by the United States in constructing those facilities. The contract with the United States has now been negotiated and approved by the Commission, which in conformance with NRS 538.220, would pledge the faith and credit of the State of Nevada for the performance and observance of all covenants, conditions, limitations, promises and undertakings made or specified to be kept, observed or fulfilled on the part of

*Presented by Gov Head at
1:00 pm mtg. of Fed St.,
Local Govs - 3/15/67.
K.*

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the State. Therefore, by entering into the contract as set out in our enabling legislation the faith and credit of the state will be pledged to approximately \$47,000,000.

In discussing the amendments to NRS 538.040 to 538.260 with the Deputy Solicitor of the Department of the Interior, the Attorney General stated that this contract will fall under the exemption relating to the debt limit of the State under the Constitution. The Deputy Solicitor requested provisions now being placed into the contract for validation by a court of competent jurisdiction to judicially determine that the contract being entered into between the United States and the Commission creates an obligation under the constitution to the natural resources exception.

Of course, it is not intended that any of the State's obligation for repayment of the Southern Nevada Water Project will be met from tax revenues. Rather, contractual arrangements are being entered into concurrently with the execution of the Federal contract which will pass on to the local water users the total obligation of the State for repayment to the Federal Government and also to the retirement of any bonds issued to finance the construction of the treatment facilities.

We have not seen Mr. Dickerson's opinion referred to in Mr. Barrett's letter of March 6. We are advised, however, that the Director of the Legislative Counsel Bureau, and also the bond counsel for the Commission, are not in accord with the Attorney General's opinion. It appears to us that the constitutional exception to the debt limit in favor of the creation of indebtedness for the "...protection and preservation of...natural resources" properly applies to the obligations being undertaken by the Colorado River Commission on behalf of the State. At any rate, this question would have to be passed on by the Supreme Court of the State of Nevada before any bonds could be issued. It is admitted that if the State Supreme Court upholds the opinion of our Attorney General, we could not issue General Obligation Bonds to finance the Southern Nevada Water Project and/or the treatment facility.

Our fiscal counsel advised us that the most economical route to take in financing this project, so vital to southern Nevada, appears to be the so called "double barrel" route providing for the issuance of General Obligation Bonds, additionally secured by a pledge of revenues from the water user agencies. Fiscal counsel advocates that we obtain legislation permitting one of two approaches: (a) General Obligation plus revenue bonds (b) revenue bonds. If and when the Supreme Court decrees that we cannot issue General Obligation Bonds because of the constitutional limitation provisions, we will, at that time, explore

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the possibility of financing this project solely out of revenues. If, at that time, the latter route appears more economical, we would issue bonds supported by revenue only. At this time, however, we desire the flexibility of proceeding under either alternative.

Double barrel bonds being serviced from revenue would have no effect on the State's bond rate according to our fiscal counsel. We can assure you that the Commission would never exercise its authority to issue General Obligation Bonds if they felt there was any possibility these bonds would have to be serviced out of tax revenue.

The responsibility imposed upon the Commission by the 1963 and 1965 legislative sessions is a major one. The growth and economy of the entire southern section of Nevada is dependent upon the achievement of the water project. The local water users have requested the Commission to make the water deliver system complete and adequate by the construction of a central water treatment facility. The Commission needs broad legislative authority to give the Commission the power to do the job. This requires not only confidence in the Commission but confidence in the economy of southern Nevada and the potential for growth of this vital area. A certain amount of vision and courage is necessary to obtain the legislative authority the Commission needs.

The Southern Nevada Water Project and the treatment facility will be financed substantially in the same manner as Hoover Dam was and is being financed, i.e., with the Federal Government furnishing construction funds to be reimbursed at a low rate of interest over an extended period of years by the people to be directly benefited from the project. Our fiscal obligation to the United States for the construction of Hoover Dam and power plant is at the present time \$41,500,000 including amortization, replacement, operation and maintenance costs for which we are also obligated. This is not considered part of the debt limitation of the State. The new proposed obligation is in the same category.

We hope that this information will assist you in understanding the Commission's views with reference to the legislation now being considered on our behalf by the legislature.

Sincerely,



Ivan P. Head
Administrator

cc: Mr. Howard E. Barrett
Director of Administration
Department of Administration
Carson City, Nevada 89701