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How Will Water
Development Be
Financed in
South Dakota?

by

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How will water development be financed in the years ahead? The debate goes on, but it is increasingly clear that states and project beneficiaries will have to pick up a larger share of the tab than in the past.

South Dakota has taken several initiatives recently to better come to grips with this reality. Sale of Missouri River water, additional appropriations and tax revenue designations, and changes in organizational arrangements and authority are among the initiatives recently enacted or attempted. The status of several of these initiatives is presented in this newsletter.

South Dakota water development plans

South Dakota's 1984 State Water Plan and Annual Report contains two groups of water projects, categorized according to their financing status. One group of projects constitutes the "State Water Facilities Plan" (SWFP). Projects in the SWFP are priority ones proposed for development within three years and which can receive grant or loan funding from the Board for Water and Natural Resources, either directly or from federal categorical grants over which the Board has influence. Approximately \$37 million in state, local, and federal funds are expected to be spent over the next three years on 79 projects included in the SWFP.

A second group of projects makes up the "State Water Resources Management

System" (SWRMS). SWRMS projects cannot be developed through the Board for Water and Natural Resources' discretionary financing authority or through federal categorical grant programs. These projects are often large, costly, and controversial. To receive state support for a federal congressional authorization or to receive state funds beyond the discretionary authority of the Board for Water and Natural Resources, projects must be included in the SWRMS. Legislative approval is required for a project to be included in the SWRMS.

Money for SWFP and SWRMS projects comes from several local, state, and federal sources. State funds and federal funds somewhat under state control come through such sources as the Water Facilities Construction Fund, federal Community Development Block Grants, and the federal Environmental Protection Agency (EPA) Construction Grants Program for Wastewater Facilities. Nearly \$12 million of the approximately \$21 million in grants and loans awarded in 1983 by the Board and the Department of Water and Natural Resources came from the EPA Grants Program. Roughly \$3.5 million came from the Water Facilities Construction Fund. The principal source of those funds was a \$3 million payment in 1983 to the State of South Dakota by Energy Transportation Systems, Inc. (ETSI) as part of its option contract to purchase up to 50,000 acre-feet of Missouri River water. Legal challenges and a recent court decision have placed future ETSI contract payments to the State of South Dakota in doubt, however.

New and supplemental funds

Several initiatives were taken during the South Dakota Legislature's 1984 Session to augment the funds available for water development. Some were passed and others were not. Among the major initiatives was a proposed \$5 million water development appropriation originally intended to serve as collateral for the sale of perhaps \$40-\$50 million in bonds to help finance various projects. A \$5

million appropriation was passed. However, because ETSI's 1984 payment to South Dakota has been delayed and in some doubt, the appropriation will go into the Water Facilities Construction Fund as a replacement for the ETSI payment. The \$5 million will therefore go to meet Water Facilities Construction Fund commitments, rather than be available as seed money for a "superfund" based largely on bond issuances.

Several other legislative proposals for new water financing sources were unsuccessful in the 1984 Legislative Session. Among these was a bill to dedicate a portion of the State's oil and gas severance tax collections to the Water Facilities Construction Fund. An additional \$700,000-\$800,000 would have been available to the Fund during the first year of enactment had the bill become law.

Organizational alternatives

Another set of initiatives has been focused on alternative organizational rules and arrangements--in attempts to more closely align the costs of water development with the beneficiaries of such development. The initiative receiving greatest attention recently in this area provides for scrapping the State's "Conservancy Subdistricts" and replacing them with a framework for "Water Development Districts". Legislation to accomplish this was enacted in a Special

Session of the South Dakota Legislature on May 2 and 3. Under the new framework, Water Development Districts will be tailored to geographic areas within which the principal benefits of major projects would occur, whereas the present Conservancy Subdistrict system provides for property tax levies over much larger areas. The State's current nine Conservancy Subdistricts will be replaced initially by six Water Development Districts. Territories included within the Water Development Districts will generally be smaller and different than those within the current Subdistricts. Petition and voting procedures have been provided for future creation of additional Water Development Districts and for geographic areas to join or withdraw from Districts. With the Water Development District boundaries, assessments for project repayment will presumably be incurred by groups more in proportion to the benefits they receive than is the case with the existing Conservancy Subdistrict boundaries.

Summary

Recent Legislative initiatives in South Dakota embody attempts to deal with the question titling this newsletter: "How will water development be financed in South Dakota?" Concerns about how water development costs are to be shared will remain paramount, however, as South Dakotans move ahead with implementation of the new legislation and with new projects.

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