May 19, 1960

My dear Mr. Secretary:

This is in reply to your letter of July 3, 1958, transmitting your coordinated report on the San Juan-Chama project in New Mexico and Colorado and the Navajo Indian irrigation project in New Mexico, both of which are proposed for authorization as units of the authorized Colorado River storage project. You request advice as to the relationship of the two projects to the program of the President.

The initial stage of the San Juan-Chama development, recommended for authorization in your report, would provide for a maximum annual diversion of 110,000 acre-feet of water from the Upper Colorado River basin to the Rio Grande basin to supply supplemental irrigation water for about 121,000 acres and additional municipal and industrial water for the Albuquerque metropolitan area. The principal features of the initial stage include three diversion dams, about 29 miles of conduit, and one storage dam and reservoir. The total estimated cost is $86,000,000, based on January 1958 prices, tentatively allocated as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal and industrial water</td>
<td>$29,200,000</td>
</tr>
<tr>
<td>Irrigation</td>
<td>$53,400,000</td>
</tr>
<tr>
<td>Future use</td>
<td>$3,000,000</td>
</tr>
<tr>
<td>Recreation</td>
<td>$400,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$86,000,000</strong></td>
</tr>
</tbody>
</table>

All the costs allocated to municipal and industrial water supply would be repaid with interest within 50 years. About $8 million of the costs allocated to irrigation would be repaid by irrigation water users over a 50-year period and the balance would be repaid from New Mexico’s share of surplus power revenues of the Colorado River storage project. The allocation to future use would also be repaid from these power revenues if it is not otherwise collected from water users. The benefit-cost ratio for the project, based on a 50-year period of analysis, is estimated at 1.03 using total benefits, and 0.81 using direct benefits only.

We note that about 57,000 acre-feet of water—over half of the total annual diversion—would be allocated to municipal and industrial water supply. In view of the rapid growth of population and the increasing emphasis on industrial development in the Rio Grande basin of New Mexico, we believe this feature of the project would make an important contribution to the future development of the region.
Information in the report indicates that the Carro, Tece, Ileno, and Pojoaque tributary irrigation units are suffering increasing economic distress as the result of increasing population pressure, erratic water supplies, deterioration of existing irrigation works, and subdivision of ownership among heirs resulting in uneconomic farm units. Although the economic justification for undertaking these works at this time appears to be somewhat questionable, their inclusion in the overall recommended plan may be warranted because of the anticipated beneficial effects in sustaining the economies of these existing agricultural communities. We would recommend, however, that their inclusion on this basis be contingent upon the development of a joint Federal-State program to provide for the consolidation of farm developments into units large enough to provide reasonable family incomes.

We note that several of the concerned States have not furnished views on the project. We also understand that Colorado and New Mexico interests have been involved in negotiations over differences with respect to the proposed transfer of Colorado River basin waters originating in Colorado for use outside the basin in New Mexico. We have been advised, however, that Colorado and New Mexico have recently reached agreement on the proposed transfer of waters.

The proposed Navajo Indian irrigation project would require the annual use of about 280,000 acre-feet of water of the San Juan River allocated to New Mexico under Colorado River compacts to irrigate about 110,000 acres within and adjacent to the Navajo Indian Reservation. These lands would be solely for Indian use. The principal features of the project include a main canal over 150 miles in length, pumping plants, a power plant to provide project pumping energy, and associated works. The total cost, based on January 1958 prices, is estimated at $135,330,300 tentatively allocated entirely to irrigation. The benefit-cost ratio on the basis of a 50-year period of analysis is estimated at 1.3 using total benefits and 0.52 using direct benefits only.

We believe this proposal raises a number of important questions of public policy with respect to Federal water resources and Indian assistance programs.

In a dry area like New Mexico, availability of water is essential to continued economic growth. On the basis of present trends, demands for water for industrial and municipal use can be expected to increase substantially in future years. Notwithstanding this fact, this project would result in committing to agricultural uses a major part of the last source of unappropriated water in the State of New Mexico, the waters of
the San Juan River allocated to the State under Colorado River compacts. We recognize, however, that the project is primarily intended as an Indian assistance measure, and that other factors are involved in these circumstances.

The plan of development for the Navajo project indicates that eventually about 1,400 families would be operating irrigated farms. It is predicted that service industries in the project area would support 2,800 families and that, in total, sufficient employment opportunities would be provided to support 20,000 Indians. The construction period for the project, however, is estimated to be 14 years. Although construction could be accelerated, this period appears desirable to allow the integration of the irrigated land into the Indian economic base. Considering the normal lag between authorization and initiation of construction, it could be 16 to 20 years before the full benefits from the project become available if it were to be authorized this year.

Current population estimates on the Navajo Reservation range from 75,000 to 100,000. In view of the recent interest which has developed in industrial utilization of the large coal deposits on the Navajo Reservation, commitment of a major portion of the waters of the San Juan River to agricultural purposes could impede industrial development on the reservation and the correspondingly greater employment opportunities which such development would provide. We would, therefore, question whether a Federal investment of $135 million is justified for a project which would ultimately establish not more than 25 percent of these people in an agricultural enterprise of marginal economic value.

Accordingly, subject to your consideration of the above views, the Bureau of the Budget would have no objection to the submission of your proposed report to the Congress. No commitment can be made, however, as to when any estimate of appropriation would be submitted for construction of these projects, if authorized by the Congress, since this would be governed by the President's budgetary objectives as determined by the then prevailing fiscal situation.

Sincerely yours,

[Signature]

Director

The Honorable

The Secretary of the Interior