SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT

Finance Strategy and Sustainability Study Questions and Answers

In January 2019, the Southeastern Colorado Water Conservancy District, by action of the Board of Directors hired a third-party consultant, Jacobs, to complete a Finance Strategy and Sustainability Study (financial study). The financial study included the following scope of items: long term financial plan, capital improvements and project plan, revenue requirement analysis, reserve recommendations analysis, policy recommendations, cost of service analysis and model, and rate design analysis and model.

Throughout the analysis and calculation process of the study, Jacobs held four workshops within the Executive Committee of the Board of Directors. All were open to the public. A detailed summary of each Workshop is available at the Districts website. The full financial study is to be presented to the Board of Directors in a formal report from Jacobs.

The following questions are in regard to the financial study. These questions were submitted via the District website or by email. These questions were gathered between February and August of 2019 throughout the Workshop process of the study.

Questions were reviewed, and consolidated to avoid duplication and clarify content.

Workshop 1: Long-Term Finance Plan

1. **Is it better to include a requirement for some reserves in the revenue requirements analysis as compared to simply showing the amount of excess revenues at the end of the 10-year period?**
   This can be done both ways as listed in the question. In the financial plan (base case), the study of the revenue requirement calculation did not include a reserve requirement.

2. **Why was a future test year selected?**
   A future test year of 2020 was selected because the District and Enterprise do not currently include historical spending within the budget process. In the past we based annual spending off that year's expected water sales and storage fees. The water sales revenues are usually firm in the third quarter. In fact, in 2017 and 2018 we were unable to make the full allocation and processed customer refunds. In some cases, reserve spending was needed, but overall many programs and projects were delayed or postponed.

3. **What projects and/or programs were delayed or postponed that are included in the 2020 test year?**

There have been many items that have been delayed over the years such as building improvements, technology improvements, additional SnoTel sites, an enhanced conservation program, etc.

In the 2020 test year recurring capital includes building improvements such as mud jacking a portion of the District headquarters, replacement of the Board of Directors chairs, replacement of window coverings, garage door replacement, and upgrading the conservation garden. Technology includes electronic records management system, exchange server replacement, and copy machine replacement. Project and program related items include water rights protection, Fry-Ark condition assessment study, and additional SnoTel sites in the Fry-Ark collection system.

4. **What is the total Revenue Requirement?**

The total revenue requirement was presented as average over the 10-year forecasted period of the financial plan. The average revenue requirement is $600,000 for the District fund and $1,000,000 for the Enterprise.

The $600,000 deficit in the District is made up of operations as well as recurring capital items, such as building improvement, vehicle replacement, and legal water right protection, etc.

The $1,000,000 deficit in the Enterprise is made up of $500,000 in operations and recurring capital items, and the additional $500,000 is for one Capital Improvement item, which is the Restoration of Yield Project (ROY). The ROY program is a storage project east of Pueblo to assist with future exchanges on the river.

5. **What are the capital projects and the years they will be funded?**

In the 10-year finance plan, with the assistance of Jacobs, a 20-year capital improvement plan was designed. The first 10 years of that plan were added to the finance plan (base case). The capital plan will be published in the draft and final report of the study.

- *Fry-Ark Fund: It is assumed (at this point) that the Project Mill Levy will cover large improvement needs over the 10-year period*
- *District Operations Fund: Recurring capital items, such as building improvement, vehicle replacement, and legal water rights protection, etc. are included, but there is no capital project listed at this time.*
- *Water Fund: Recurring capital items, such as reimbursement on District capital expense, Fountain Creek Transit Loss, Upper Basin Storage and one capital project which is the Restoration of Yield (ROY) Project. This includes phase one starting in 2020, phase two starting in 2025, and phase three starting in 2029.*
- *Hydroelectric Fund: This project is new, so it is assumed that no capital project or improvement is needed over the 10-year period.*

6. **What are the future capital improvement concerns?**
Examples of future capital needs include:
    - *Recovery of Storage: The Fry-Ark Project has lost 20,000 acre-feet of storage in Pueblo Reservoir over 45 years.*
    - *Expansion of Storage: The District previously has identified the need for more storage in the Arkansas River basin.*
    - *Colorado River Call: The Fry-Ark Project water right is the most junior in Colorado on the Colorado River, and would be the first called out under state water administration if a call were placed by lower basin states.*
    - *Pueblo Dam Interconnect: The interconnection at Pueblo Dam has been studied and would provide operational efficiency and security for water users.*
    - *Safety of Dams: Future S.O.D. expenses that could arise.*
    - *Restoration of Yield: Further storage projects required to assure Project yield while meeting regulatory or environmental requirements.*
    - *Catastrophic risks: Unforeseen failure of major structures.*
    - *Exposure: Liability beyond limits covered by insurance, including the need for immediate administrative needs, legal action or engineering support.*

7. **Can we accelerate some of the items from the 20-year capital plan into the 10-year capital plan?**
Yes, the Capital Improvement Plan will be reviewed annually by the Board of Directors. The Board has the ability to move forward or add projects or programs in the 20-year plan by using reserve funds.

8. **Does the District currently have funding to spend on the planning of capital improvements?**
Yes, the District has as estimated $5.9 million in unassigned funds. This estimation does not include the year-end 2019.

Unrestricted Reserves – General Fund

12/31/2018 Fund Balance	$ 15,577,000
Prepaid, Assigned Items	(1,687,109)
TABOR	(150,000)
Fry-Ark Obligation	(1,500,000)
Enlargement	(2,000,000)
Starting Study Fund Balance (unassigned)	**$ 10,200,000**

Fry Ark Project Fund: $4,300,000
District Operations: $5,900,000

9. **Does the Enterprise currently have funding to spend on the planning of capital improvements?**
Yes, the Enterprise has as estimated $3.8 million in unassigned funds. This estimation does not include the year-end 2019.

Unrestricted Reserves – Enterprise Fund

12/31/2018 Fund Balance	$ 11,550,000
Project Water Rate Stabilization	(812,000)
Restricted for Hydro Contract - LOPP Contract	(100,000)
Rocky ford settlement Upper & Lower Current	(2,000,000)
Rocky ford settlement Upper & Lower Future	(2,000,000)
Hydropower balance due	(2,780,000)
Starting Study Fund Balance (unassigned)	**$ 3,858,000**

Water Activity: $ 6,638,000
Hydro Project: $(2,780,000)

Workshop 2: Establishing Appropriate Reserves

1. **When should the District have a capital project reserve compared to an operations, maintenance and replacement reserve?**
   A Capital Projects reserve is designed to support large planned or unplanned projects. An example of this is the Restoration of Yield project listed in the Water Fund capital improvement plan.

   An Operating reserve is designed to support unforeseen annual operational needs. An example may include a less than average water year or storage year, this reserve could bridge that gap of lost or short revenues.

2. **What are the infrastructure and operational differences between the agencies being compared in the Financial study regarding reserve targets?**
   The agencies selected *are west-wide water providers, of which many hold USBR contracts or are cutting-edge organizations. The District is very unique, so comparing agencies can be difficult, but this comparison provides the Board of Directors with an idea of other agencies' standards. The main takeaway is the Board of Directors will have to determine their level risk tolerance when setting reserve targets.*

3. **Why has a one-year operating reserve been selected for the Financial study**?
   The majority of the revenues collected in the District and Enterprise are at a specific point in the year. The Enterprise collects the majority of revenue late in the year, after water allocation. The District collects operating tax revenues mainly during March – June. Specific Ownership tax is unpredictable in time and amount. Due to this process the full year was analyzed. The number used to calculate the operating reserve was the one-year average of operating expense for 2016-18.

   This is a recommendation from Jacobs to eliminate revenue risk based on their professional opinion and other organizations that they surveyed, of which many held a 365 day reserve.

4. **Why is a capital reserve a percentage of assets under management?**
   This refers to the Fry-Ark Project sub-fund, the District is not responsible for 100 percent of the OM&R of the Fry-Ark project. The District is responsible for a percentage of all Fry-Ark assets, and each Fry-Ark asset is assessed at a different percentage. For example, the District pays 56 percent of OM&R including RAX on Pueblo Dam. So, we would not forecast more than the estimated cost that District would pay.

   Industry best practices and organizations included in survey used 2 percent of assets for this reserve. One of the supporting reasons for this is due to the limited ability that the District has to issue debt.

5. **Why have an administrative expense reserve? Are these items potentially covered by insurance?**
   The Exposure reserve would cover both administrative and environmental exposures. Administrative exposures could include legal, property damage and liability, losses and

judgment. Environmental exposures could include natural events, regulatory mandates, environmental events, water quality issues, flooding and/or drought. Some of the items listed could be covered by insurance policies.

The $5 million was an analyzed calculation and recommendation from Jacobs to cover annual fluctuations in revenue. This was a practice of organizations surveyed.

Note: The District only insures our owned assets, meaning the District headquarters, etc. The District cannot insure the Fry-Ark Project assets as they are owned by the USBR.

6. **How will reserve funds correct environmental exposures?**
   The Exposure reserve would cover both administrative and environmental exposures. Environmental exposure could include: acts of God, regulatory mandates, environmental events, and water quality. Examples may include: drought, flooding, emergency watershed health in the Fry-Ark collection system due to fire, etc. Most of these instances would require an up-front funding source.

7. **Why do we need $5 million to cover annual fluctuations in revenue?**
   The District (General Fund) Cash Reserve would support the seasonal variations in the operating cycle of cash flow. This reserve protects the fluctuations and timing of revenues that affect cash flow. This figure mainly protects the fluctuations for the Fry-Ark Contract cash flow. The District operations makes up a small portion of this total.

8. **Where does the revenue come from to generate the $63 million in total targeted reserves?**
   This would be determined by the Board of Directors through a future policy. The $63 million recommended target reserves include the total of all funds, and are the highest point of the recommended range. It is dependent on the source of revenues for each sub fund. The Fry-Ark Project sub fund has a reserve mechanism currently in place as a result of Amendment 11 of the Fry-Ark Project Contract. The Fry-Ark Project sub-fund makes up $35 million of the above stated $63 million.

   Reserves generation for the District operations sub fund, Water sub fund, and Hydroelectric sub fund will be determined by the Board of Directors though policy.

9. **Is it a standard approach to establish reserves prior to determining capital funding needs?**
   In Workshop 1, a 20-year capital improvement plan (CIP) was developed, in which the first 10 years of that plan were included in the 10-year financial plan (base case). The CIP has the potential to change based on project and program needs, and is planned to be reviewed on an annual basis.

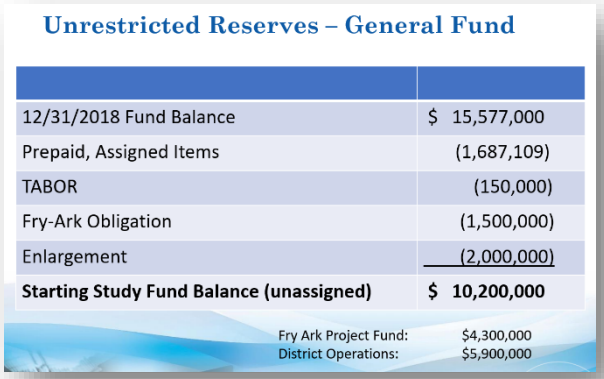
   It is standard to determine capital needs before setting reserves, then assigning specific totals to specific needs.

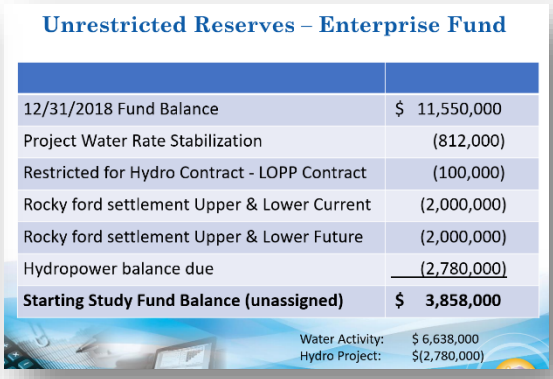
10. **Is it a standard to begin policies and procedures and then go to categories and targets as compared to the other way around?**
We have found example of other organizations establishing reserves before and after policies. The District has never done a financial plan including a cost of service and rate analysis, and it was felt it was necessary to educate the Board on each element of the process. Upon completion of the workshops, it was determined that suggested policies would be reviewed in September 2019.

11. **What is the factual underpinning for the currently identified reserve amounts?**
The agencies selected *are west-wide water providers, of which many hold USBR contracts or are cutting-edge organizations. The District is very unique, so comparing agencies can be difficult, but this comparison provides the Board of Directors with an idea of other agencies' standards. The main takeaway is the Board of Directors will have to determine their level risk tolerance we setting reserve targets.*

Many large water providers surveyed hold the 4 categories of reserves; Cash, operating, capital, and contingency/exposer reserves. The proposed target numbers are simply a starting point, and would have to be evaluated in the future.

12. **Can you explain the current fund balance in the study presentation from Workshop 2? It was observed that the unrestricted reserves listed in the presentation differ in the from that of the published audit.**





The above images were presented in Workshop 2 regarding fund balances:
The starting balances on both images are correct (amounts are rounded) and match the 2018 annual audit totals. It was found as a result of the Financial study that the Enterprise fund has contractual obligation that will need to be disclosed in the 2019 audit. This will be updated in the 2019 audit and finance statement process.

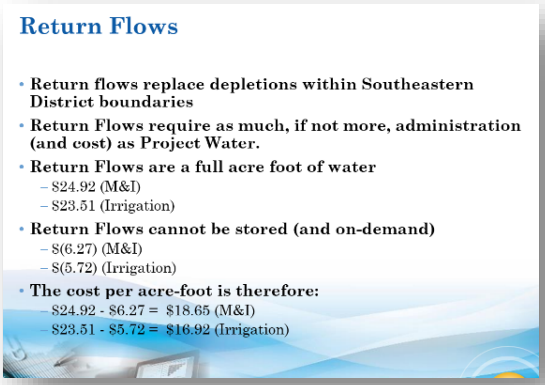
13. **What is the difference between the fund balance and reserves?**
The fund balance is the net position of a governmental fund: this is the difference between assets, liabilities, and deferred outflows and inflows of resources. This can be found on the Statement of Net Position. Reserves are a portion of the fund balance that is "reserved" or "set aside" for a specific category or a specific purpose.

Workshop 3: Allocating Cost of Service

1. **Why do the surcharges remain in place? Can they be added to the overall cost of water using the cost of service method?**
   The Financial Study assumes that surcharges remain the same as in the past. The surcharges were not analyzed in the current Financial Study because the surcharges were set in place for a specific past cost and timeframe. Jacobs recommended that the surcharges be studied in detail in the next cost of service study in three years. Changing or removing surcharges will be a future decision by the Board of Directors.

2. **What is the rationale for split rate recommendation from Jacobs?**
   One of the goals of the Financial Study was to allocate costs among customer classes equitably and fairly. Costs were assigned to customer classes based on the benefit of expenditures. As in the past, the two classes of customers are municipal & industrial, and irrigation, and remain the same.

3. **How were costs allocated in the cost of service for return flow water?**
   The return flow rates calculations were provided on the following image in Workshop 3:



Note: The Return Flow cost of service calculated totals were updated in Workshop 4 as seen in the below table.

	Workshop 3 $/AF	Workshop 4 $/AF	Variance $/AF
M&I	18.65	$ 18.78	$ 0.13
Irrigation	16.92	$ 16.18	$ (0.74)

The calculation assumes the same cost allocation as the Project Water for one full acre-foot of water and adjusted for the on-demand requirement, as follows:

Project Water rate: $15.25 (M&I) $13.14 (Irrigation)
Formula: Project Water Consumptive Use is 60%; leaving 40% Return Flows.
Return Flow Water rate (full acre-foot): $25.41 (M&I) $21.90 (Irrigation).
Formula: Return Flow Water rate (full acre-foot), minus value of water storage ($6.63 M&I, $5.72 irrigation)
Return Flow Water rate (adjusted): $18.78 (M&I) $16.18 (Irrigation).

4. **What is the score of the allocation factors between the two rate classes, M&I and irrigation?**

The cost of service was calculated in two methods: a uniform rate and a split rate. The uniform rate was divided evenly between the two rate customers. The split rate was allocated based on the expenses applying to M&I only, irrigation only, or both (meaning M&I and irrigation). The percentage of the allocation is as listed below:

Uniform rate: 50 percent M&I
50 percent Irrigation

Split rate: 31 percent M&I
1 percent Irrigation
68 percent both (applying to M&I and irrigation)

M&I expenditures: Excess Capacity, Fountain Valley Authority, Regional Resource Planning Group, Fountain Creek Transit Loss, water policy management consultants, and lobbyists.
Irrigation expenditures: Reclamation Reform Act, and Winter Water.

5. **What makes up the increase in the District and Enterprise personnel and overhead in the test year 2020?**

The 2020 test year is consistent with the published 2019 Business Plan. In 2018, staff completed the Business Plan which included the Adopted Budget for 2019 and proposed budgets for 2020 and 2021. The increase occurred in the business plan in anticipation of the 2018 salary and benefits survey. The total increase from the adopted 2019 Budget and the 2020 test year is about $56,000 or 4 percent increase.

6. **What is the history of charges for water storage? What is the reasoning behind the M&I carryover storage rate?**

When the Enterprise was established in 1996, it was determined that fees and assessments could be charged on stored Project water. Current practice is M&I carryover storage water has been changed surcharges since 1998. Irrigation has been changed for Winter Water storage since 1965 and can only carry over 20 percent for the next irrigation season.

In Workshop 3 Jacobs presented a cost of service for M&I carryover storage water. This calculation is an opportunity cost for the Enterprise which includes, the cost of Project Water, evaporation loss of 10 percent, transit loss of 10 percent of the evaporation loss, and a forgone return flow calculation. The forgone return flow calculation is supported by the loss of the ability to sell return flows on M&I stored water. The opportunity cost of carryover storage water is listed below:
Note that the M&I Carryover storage cost of service calculated totals were updated in Workshop 4, as seen in the below table.

	Workshop 3 $/AF	Workshop 4 $/AF	Variance $/AF
Total Opportunity Cost of Carryover Water	$ 11.58	$ 11.86	$ 0.28

7. **Why does Winter Water pay a fee for storage?**
In the Fry-Ark contract between the District and USBR, Winter water participants are required to pay $2.80 per acre-foot. The District collects this fee and forwards it to the UBSR, as required by the contract.

The Financial Study recommends that the cost of service storage rate for Winter water is $5.72. This would include the $2.80 per acre-foot to be forwarded to the USBR as required and $2.92 would remain in the Enterprise.

8. **Why is a reduction in reserves a credit in determining cost of service?**
Non-rate revenues, including changes in reserves, are credited in order to accurately reflect the cost of service for rate-making purposes. Per AWWA M1 Manual (page 54) "...in arriving at the net revenue requirements to be recovered by rates, the change in the fund balance should also be considered." Including the change in fund balance does not add to (or subtract from) reserves; rather, a neutral revenue requirement (to eliminate the forecasted deficit in the 2020 test year) is obtained by crediting the reduction in reserves.

9. **If Fry-Ark Project beneficiaries have paid for the Project, which includes storage, what is the justification for a carryover storage charge or an excess capacity charge for such beneficiaries?**

The Project Mill Levy paid and continues to pay for the construction of the Project, municipal interest on debt, and OM&R. The District has charged fees and assessments on different types of water and storage (all benefits of the Project) since 1971.

There are many benefits to the Project. There are fees associated with each benefit of the Project, such as Project water storage, Winter Water, the sale of Project water, Return Flows, and excess capacity storage.

10. **Is the carryover charge tied, in part, to the loss of capacity in which to store project water in subsequent years?**
No.

11. **How does "ability to pay" fit into a cost of service analysis?**
The ability to pay is not part of the cost of service methodology. Ability to pay applies only to irrigation and is an element that the USBR has performed historically. It was included in the scope of this Financial Study to provide a parallel analysis to the cost of service. The ability to pay study will be available in the draft report of the Finance Strategy and Sustainability Study. Draft numbers indicate that the cost of service rates proposed for irrigation are less than the irrigator's ability to pay.

12. **Are staff costs allocated between the District and the Enterprise such that there is no double counting?**
    The personal and overhead was doubled in the DRAFT financial plan and has since been corrected. This is reason for the change in cost of service from Workshop 3 to Workshop 4.

13. **When should there be a policy discussion of what to do with "if and when" storage rates?**
    The rate structure for excess capacity or "if and when" storage is set by the USBR via contract. No policy discussion is applicable.

Workshop 4: Water Rate Design and Analysis

1. **Is the intent to build a fund balance or to build reserves?**
   No, the intent is to cover the deficit and eventually to balance revenue and expenditures listed in the financial plan.

2. **When considering the impact of inflation on revenue needs, did you look at inflationary increases in the cost of applicable labor and materials as well as increases in the value of the underlying assets?**
   Inflation vs. Rate Increases:

   Inflation was included in the determination of revenue requirements in Workshop 1. Inflation was assumed to be 2 percent annually for the cost of labor and materials (for most expenditure line items).

   Rate increases for water and storage rates were assumed to be 5 percent for the Phase-In scenarios in Workshop 4. Rate increases of 5 percent for water and storage in the phase-in scenarios exceed the rate of inflation (2 percent) in order to recoup the under-recovered revenue in the early years of the rate phase-in, when rates are set below their cost of service. The District must therefore "catch-up" to achieve the same amount of total revenue required to sustain operations over the forecast period (10 years).

   As presented, year 2020 is the only year in which a rate will be approved by the Board. Years two and three (2021 and 2022) are advisory rate years, for customer communication and budgeting. Because the District will perform another cost of service in three years, the rate and cost recovery will not surpass the three-year period.

3. **What is the justification for using the annual 5 percent rate increase?**
   The 5 percent increase is an approximation of the annual increase required to generate comparable Net Revenues over the 10-year planning period.

   As presented, year 2020 is the only year in which a rate will be approved by the Board. Years two and three (2021 and 2022) are advisory rate years, for customer communication and budgeting. Because the District will perform another cost of service in three years, the rate and cost recovery will not surpass the three-year period.

4. **The rates recommendation from Jacobs suggests one of the three options: 1-year, 5-year or 10-year phase in of rates. Why is the cost of water and storage at year 5 and 10 a higher cost than that of year 1?**
   In order to generate similar net revenue over the 1-, 5- and 10-year phase-in periods, there needs to be a compensating rate increase applied to the phase-in scenarios. The District must therefore "catch up" to achieve the same amount of total revenue required to sustain operations over the forecast period (10 years).

   The only rate that remains that same in each scenario is the M&I carry over storage, which is phased in over a 5-year period; 0 percent year 1, 25 percent more each year from two through five.

As presented, year 2020 is the only year in which a rate will be approved by the Board. Years two and three (2021 and 2022) are advisory rate years, for customer communication and budgeting. Because the District will perform another cost of service in three years, the rate and cost recovery will not surpass the three-year period.

5. **Does each rate design scenario generate the same total rate revenues? And what are the increase in revenues per year.**

No, it is not possible to generate the same 10-year net revenues using the same annual rate increase assumption across the phase-in scenarios. The intent, however, was to design scenarios that generate comparable 10-year net revenues using a single, consistent rate increase assumption that is easy to understand (i.e., 5 percent).

Even though we have studied the effects of the base case 10- year net revenue, below are the first three years of each scenario forecasted revenue generation. Three years is used because the District will complete a second cost of service before the fourth year as stated.

Aggressive – 1 year Scenario

Year	Base Case Revenue	Increase in Revenue	Total Revenue
2020	$1,138,558	$507,966	$1,646,524
2021	$1,138,558	$814,396	$1,952,954
2022	$1,138,558	$1,119,974	$2,258,352

Moderate – 5 Year Scenario

Year	Base Case Revenue	Increase in Revenue	Total Revenue
2020	$1,138,558	$123,474	$1,262,032
2021	$1,138,558	$385,508	$1,524,066
2022	$1,138,558	$793,908	$1,932,467

Gradual – 10 Year Scenario

Year	Base Case Revenue	Increase in Revenue	Total Revenue
2020	$1,138,558	$70,442	$1,209,000
2021	$1,138,558	$210,211	$1,348,770
2022	$1,138,558	$424,686	$1,563,245

6. **How long does it take to generate revenues for reserves?**

The calculated revenue requirements from Workshop 1 did not include revenues for reserves, however the recommended targets for reserves were presented in Workshop 2. The revenue generated for reserves is dependent on the rate option chosen by the Board. Once the revenue requirement is met, then revenues for reserves can be generated.

In the first three years of the 10-year forecast, the revenue requirement is not met in any of the three rate scenarios (aggressive, moderate or gradual), meaning no revenue for reserves is projected. The Board of Directors can only adopt rates on a year-to-year basis.

Ability to Bond Projects through Debt

1. **Provide comments regarding borrowing through the issuance of bonds for large future capital outlays.**
   Bonding is not currently a part of the scope of the financial study, but staff has completed preliminary research regarding the ability to borrow through the issuance of bonds. To investigate this further, the District would need to hire a financial advisor and/or bond counsel to compile all options and start the bond rating process. This is an item of discussion for the Board of Directors in the next three years, prior to the next cost of service analysis.

Fry-Ark Mill Levy and TABOR

1. **Will a vote of the public be necessary to extend the mill levy once the project principle is paid in full?**
   This question will be addressed and discussed at the September 19, 2019 Board of Directors meeting in executive session by legal staff.

History of Rates and Surcharge Fees

1. **What is the cost justification for the "current" rates?**

Water Rates

- *1965: Water rates were applied to the Fry-Ark Project Contract to cover repayment, OM&R*
- *1974: Water sales began in 1974, $5.40/acre-foot*
- *1982: Water rate increases to $8/ acre-foot*
- *1996: Water rate increases to $9.20/ acre-foot*
- *1998: Water rate reduced to $7/acre-foot after Reclamation proposal on Irrigation "ability to pay" (a lower rate) is countered by a Board proposal for "willingness to pay" M&I rate*
- *2000: Return Flow rate set at $6/acre-foot*
- *2010: Amendment 9 to the Contract shifts water sales revenues to the Enterprise. District has the ability to adjust rate*

Surcharge Fees

- *1998: Safety of Dams surcharge to repay the M&I costs (to avoid interest) and make a $60,000 annual payment for Irrigation costs. The charge applies to Winter Water, Project carryover, and Excess Capacity storage, and all water sales: $0.25-$2.00/ acre-foot*

- *2002: Water Activity Enterprise surcharge funds programs, projects and functions of the Enterprise, as well as building reserves: $0.50-$4.00/ acre-foot*
- *2005: Well Augmentation surcharge: $2.60/ acre-foot*
- *2013: Environmental Stewardship surcharge, four programs, 20 years: $0.75/ acre-foot*

2. **Is there a Resolution, policy, or meeting minutes on the 1998 decision to charge for stored water?**
   The Resolution to charge for stored water was passed on May 21, 1998, and most recently amended on August 17, 2000: "Resolution Amending the Resolution establishing the Southeastern Colorado Water Activity Enterprise, and terminating the Southeastern Colorado Water Activity Enterprise.

   The 1998 Resolution amended the September 21, 1995 resolution establishing the Water Activity Enterprise. It added the surcharge for Safety of Dams.

   Article 5 of the Resolution states: "The Activity Enterprise is and shall be authorized to impose fees and assessments in its discretion, on the use of Fryingpan-Arkansas Project water, return flows, and storage space, in accordance with Article 45.1 of Title 37, C.R.S., and the Activity Enterprise Resolution as hereby amended."

3. **History on different type of Water storage and the fees that have paid.**
   Winter Water Storage charges were anticipated in the 1965 Contract and were first assessed in 1974 at $2.25 per acre-foot. The rate increased to $3.20/acre-foot in 1982, $3.65/acre-foot in 1996, and was reduced to $2.80/acre-foot in 1998. A surcharge of $0.25/acre-foot for Safety of Dams was also applied after 1998, raising the total to $3.05/acre-foot. In 2013, the Environmental Stewardship surcharge was added, increasing the rate to $3.80/acre-foot.

   Project Water Storage was charged $1.00/ acre-foot under the S.O.D. surcharge in 1998. As new surcharges were added, the rate went up to $2.25/acre-foot in 2002 (Enterprise surcharge), and $3/acre-foot since 2013 (Environmental Stewardship surcharge).

   If and When Storage, both municipal and agricultural within the District boundaries, was charged $0.50/per acre-foot in 1998 (S.O.D. surcharge), $1/acre-foot in 2002 (Enterprise surcharge), and $1.75/acre-foot since 2013.

   If and When Storage, outside District boundaries, was charged $2.00/acre-foot in 1998 (S.O.D. surcharge), $6/acre-foot in 2002 (Enterprise surcharge), and $6.75/acre-foot since 2013.

4. **The Water Activity Enterprise and Environmental surcharges were approved by the Board of Directors to fund specific costs. If the intent is to maintain this surcharge, how would the appropriate rate level be established?**
   A detailed examination and analysis of surcharges was not performed. Instead, all surcharge revenues were credited in the cost of service allocation process (to unsure no

double counting of such revenue) and were assumed to remain in place. If a given surcharge was to be eliminated, the cost of service would need to be re-performed. Jacobs recommended including a more detailed examination of all surcharges in the District's next cost of service analysis.

5. **<u>If the Water Activity Enterprise and Environmental surcharges were reset based on test year costs, what would be the impact on the rate level for water sales?</u>**
   If any one of the given surcharges were to be eliminated, the cost of service would need to be re-performed. Jacobs recommended including a more detailed examination of all surcharges in the District's next cost of service analysis. If surcharges were to be eliminated or reduced, an equal offsetting increase to the water rate would be needed.

Question: What would happen if the District was not able to pay OM&R costs, particularly Extraordinary Maintenance, to the Bureau of Reclamation?

Under current law, OM&R must be paid by the District in the year in which the OM&R activities occur, unless some statutory exception exists. For activities at the Fry-Ark there does not appear to be any current exceptions. This was one of the principle reasons for creating the OM&R reserve fund in Amendment 11 to the District's contract with the United States.

In Contract Article 17, one of the original contract provisions, the District has committed to:

> *cause to be levied and collected all necessary taxes, assessments, tolls, and other charges, and will use all of the authority and resources of the District to meet the obligations of the District to make in full all payments to be made pursuant to this contract on or before the date such payments become due and to meet its other obligations under this contract.*

Failure to comply with this provision would trigger action under Contract Article 16(b), which provides:

> *The payment of charges becoming due pursuant to this Contract is a condition precedent to receiving benefits under this Contract. The United States shall not make water available to the District through Fry-Ark Project facilities during any period in which the District is in arrears in the advance payment of water rates, or any OM&R charges due the United States, or is in arrears for more than 12 months in the payment of any construction charges due the United States.*

In sum, failure to make a payment for the District's obligations will result in Reclamation withholding water deliveries to the District and its beneficiaries. The only exception is if the District could gain statutory relief.

An additional remedy that Reclamation may impose is through reclaiming water sales revenues. In Amendment 9, the cost for water to be paid to Reclamation was reduced to $0.00, permitting the District, acting through its water activity enterprise, to charge for water without that charge going to Reclamation for payment of OM&R or construction repayment. Contract Article 11(c)(1) permits a Reclamation to reassess and change the cost for water on an annual basis. Should Reclamation set a water rate for payment of the District's current obligations to repayment and OM&R, this would return the water payments to Reclamation, depriving the District, acting through its water activity enterprise, of water sales revenues for other District and Enterprise purposes.