COLORADO
Colorado Water Conservation Board
Department of Natural Resources

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Denver, CO 80203

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Jared Polis, Governor

Dan Gibbs, DNR Executive Director

Rebecca Mitchell, CWCB Director

TO: Colorado Water Conservation Board Members

FROM: Kirk Russell, P.E., Finance Section Chief

DATE: November 20-21, 2019 Board Meeting

AGENDA ITEM: 12d. 2020 Projects Bill
Southeastern Colorado Water Conservancy District – Arkansas Valley Conduit Funding Package

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Introduction

In 2006, the CWCB approved a $60.6 million loan to the Southeastern Colorado Water Conservancy District – Water Activity Enterprise (District) to provide the non-federal share of funding for the Arkansas Valley Conduit (AVC) project. (2006 Board Memo attached). Approval was subsequently given by the Legislature in SB07-122. That authorization was modified in SB09-125 to extend the expiration date to July 1, 2019. The District is requesting a renewed funding authorization from the CWCB. The District and the Bureau of Reclamation (Reclamation) have made significant advancements over the last ten years and the District is now requesting a $100 million funding package from the CWCB for the non-federal cost share of the project.

The AVC is a 130-mile long water supply pipeline project extending from Pueblo Reservoir to the City of Lamar. It will utilize the existing Pueblo Board of Water Works infrastructure to convey water to the east edge of Pueblo. From there, a proposed pipeline will deliver domestic water to rural communities along the Arkansas River. The current cost estimate for the AVC is about $600 million (April 2016 price levels), which is double the estimate in 2006 when the original CWCB loan was approved.

The District applied for a $20 million grant through CWCB's Non-Reimbursable Investment (NRI) application process in August 2019. The application was reviewed at the Finance Committee meeting in September 2019. Staff indicated to the Committee that $10 million is available at this time. The Committee recognized the importance and timing of the AVC project and requested a formal presentation by the District to the Board for further consideration. See attached Project Data Sheet for a location map and Project Summary Handout.

Staff Recommendation

Staff recommends the Board include a $100,000,000 funding package in the 2020 Projects Bill for consideration by the Bill sponsors. The funding package includes a $90,000,000 loan and a $10,000,000 Non-Reimbursable Investment to the Southeastern Colorado Water Conservancy District, acting by and through its Water Activity Enterprise for costs related to the Arkansas Valley Conduit Project from the Severance Tax Perpetual Base Fund.

Condition of approval:
The District shall submit a completed Loan Feasibility Study for final CWCB loan approval which will establish the loan terms. The District will also submit a NRI (grant) disbursement plan for CWCB approval prior to entering into a contract for this funding package.

Borrower – Southeastern Colorado Water Conservancy District

The District was created under Colorado law on April 29, 1958, for the purpose of developing and administering the Fryingpan-Arkansas (Fry-Ark) Project. The District includes parts of nine counties, and extends along the Arkansas River from Buena Vista to Lamar, and along Fountain Creek from Colorado Springs to Pueblo. It makes supplemental water available to approximately 280,600 acres of irrigated land, as well as municipal and domestic water suppliers, and the District's approximately 860,000 constituents. The District is the agency responsible for repayment of the reimbursable costs of the Fry-Ark Project and is responsible for administering the distribution of water obtained through that project. The initial repayment obligation of the District was $132 million, with a maturity date of 2032. The remaining balance as of June of 2019 is $17 million, with an annual payment of about $1.4 million. Revenues to meet the annual payments are provided by property taxes. Property tax revenues are about $8.1 million per year out of an approximate total annual budget of $22.6 million. The District has a 15-member Board of Directors, appointed by the State District Court system and serving 4-year terms. The Fountain Valley Authority is a separate entity and was responsible for the pipeline constructed to deliver water to Colorado Springs and the surrounding area.

The District Enterprise - In 1995, the District created the Water Activity Enterprise as a separate and distinct business activity from the District's governmental activities, and specifically to administer the sale and management of water, including the Fry-Ark Project return flows. The Enterprise is the sponsoring agency for the AVC project, and is acting as the oversight agency for the District and the AVC participants. The Enterprise itself has no taxing authority, but will function as the business entity to handle the process leading up to and the actual construction of the conduit. The Enterprise will also be responsible for collecting revenue from participants and paying the debt service on the CWCB loan.

Background

The Fry-Ark Project (Project) was authorized in 1962. The primary purpose of the Project is to provide transmountain water for municipalities, towns, water companies and irrigation companies in the Arkansas River basin. The Project includes dams, reservoirs, tunnels, pipelines and diversion structures. Most project features were constructed between 1964 and 1982. By law, the construction cost of the Project must be repaid by project beneficiaries.

The Project authorization includes two municipal pipelines. As originally authorized, the entire construction cost of both pipelines was to be repaid to Reclamation over 50 years with interest. The Fountain Valley Pipeline was completed in 1985 and provides water to the large and growing communities of Colorado Springs, Fountain, Security, Widefield and Stratmoor Hills in El Paso County. Those communities are repaying 100 percent of this pipeline's cost. The AVC will serve 40 communities in five counties east of Pueblo, but has not been built because participants have not had the ability to repay 100 percent of the AVC's construction costs as required in the original Project authorization.

In 2000, at the request of Otero County participants, the District initiated new studies of the AVC. This study found that the AVC participants still could not afford to repay 100 percent of the construction cost of the AVC as required by Federal law.

Federal legislation in 2009 (Public Law 111-11) provided a mechanism to apply revenues from excess capacity contracts for storage of non-Project water to assist in both construction and repayment of the AVC, including the 35 percent local cost share.

Loan Feasibility Study

The District originally provided a preliminary feasibility study in 2006. This study has been updated, however, it remains in a "preliminary" status and will require the submittal of a final version when the District returns to the CWCB for final approval of the loan and disbursement of NRI funds. Staff will work with the District to update the feasibility study to include at a minimum:

- Federal funding appropriation for the project costs
- Institutional questions pertaining to project design, ownership, and operation of the AVC
- Project schedule, permitting, design, construction
- Final Financial Program -including Participant Funding Agreements
- Disbursements of the NRI funding as it pertains to the overall project

In accordance with the CWCB Financial Policy #2 (Feasibility Study), the CWCB, pursuant to Section 37-122-60 CRS requires that "all projects have a completed feasibility study prior to loan consideration by the Board. In those cases where it is impractical to complete the study prior to Board approval and/or General Assembly authorization, the Board may consider a conditional approval. This approval shall be conditioned upon completion of a feasibility study in accordance with CWCB guidelines by a specified date. In no case will a CWCB loan contract be executed without a completed feasibility study.

Project Description

The AVC begins at Pueblo Reservoir about 5 miles west of Pueblo and continues in an easterly direction along the Arkansas River for approximately 130 miles to City of Lamar. The conduit will be gravity flow and the size will vary from 30” to 16” when it reaches Lamar. The conduit will make deliveries of water to entities along the way.

Reclamation completed an Environmental Impact Study on AVC in 2013, and issued a Record of Decision in 2014. The route at that time avoided construction through Pueblo by pumping water to a tank south of Pueblo, where it would flow by gravity to the communities to the east.

In 2017, the District approached Reclamation with an alternative proposal to deliver water to AVC at the eastern edge of the Pueblo Board of Water Works’ existing system, eliminating the need to build new water lines around Pueblo. This will save about 10 years in construction time, and reduce total project cost. Subsequent discussions over the next two years among Reclamation, the District and Pueblo Water confirmed that this alignment for the AVC is feasible.

Because the current cost estimate is based on feasibility level design, it includes a 42 percent contingency in the estimate as required by Reclamation cost-estimating guidelines. The total AVC project cost is estimated at $600 million.

Financial Considerations (Provided by District)
Historically, Reclamation's congressional appropriations have fully funded all costs required to construct a project. The local project sponsors then repaid those construction costs in accordance with Federal law (typically over 40 or 50 years, and with interest in the case of M&I water supplies) and bore 100 percent of operation and maintenance costs. This is the model used for the Project features constructed to date.

While there is no federal statute that requires a non-federal cost share to build the AVC, the political, and the financial, reality is that a non-federal contribution toward design and construction is necessary for the project to move forward.

What is included in statute is an authorization for the project to be built "subject to appropriation." The AVC has received congressional appropriations for environmental, planning, and preliminary design work since the 2009 amendment, but no funding request was included in the Administration's budget requests for FY19/20. Since the administration's budget process is developed outside of public view, the District does not know if the President's budget request for FY20/21 includes funding for the AVC until it is released next February.

The District is operating in a federal appropriations process that bans congressionally directed spending, more commonly known as earmarks. Absent earmarks, a project's future is wholly dependent upon support from the Administration.

The Office of Management and Budget (OMB) makes the final determination of the Administration's budget requests for specific projects. OMB's actions have demonstrated emphatically that it does not regard water resource development as a federal responsibility and that state and local entities should be funding such projects. It is likely that this philosophy was behind much of the recent cost-sharing Federal legislation noted above.

OMB has repeatedly demonstrated this philosophy in their largely inadequate budget requests for congressionally authorized rural water projects. Unlike AVC, however, the authorizing legislation for most of these rural water projects includes a requirement for significant up-front, non-federal financing. OMB has consistently demanded this local funding be secured before including a request for Federal funding in the President's budget request.

It is this political and fiscal reality that brings the District to the CWCB for significant financial support. It is clear to the District, to Colorado's congressional delegation and to Reclamation that construction of the AVC is dependent on a significant contribution of non-federal dollars.

AVC is nearing the point where construction can begin, but without a clear and defined path for a non-federal contribution, it is unlikely that the Administration will include funding in its FY20/21 budget request to be released in February 2020.

Given the work the District has done to reduce the scope of the project (e.g. using existing infrastructure to convey project water to the east side of Pueblo), the District's intention is to seek federal funding or financing from EPA and/or USDA, and support for the project from Reclamation and the Colorado congressional delegation. (See attached Congressional support letter to Interior Secretary David Bernhardt) The District believes there is a narrow window of opportunity to finally begin the flow

of substantive federal funding for construction via Reclamation's budget. The District believes securing significant non-federal funding and/or financing during this legislative session is critical to its ability to take advantage of this window of opportunity.

Therefore, the District is requesting support from the State of Colorado through the CWCB and the legislative process for a $100 million funding package for the AVC. (See attached Governor Polis support letter to Senator Crowder)

cc: Bill Long, Board President, Southeastern Colorado Water Conservancy District
James Broderick, Executive Director, Southeastern Colorado Water Conservancy District

Attachment: Water Project Loan Program – Project Data Sheet
Arkansas Valley Conduit – Summary Handout, February 25, 2019
Congressional support letter to Interior Secretary David Bernhardt, October 11, 2019
Governor Polis support letter to Senator Crowder, August 30, 2019
Original CWCB Board Memo, November 6, 2006

COLORADO
Colorado Water Conservation Board
Department of Natural Resources

Arkansas Valley Conduit

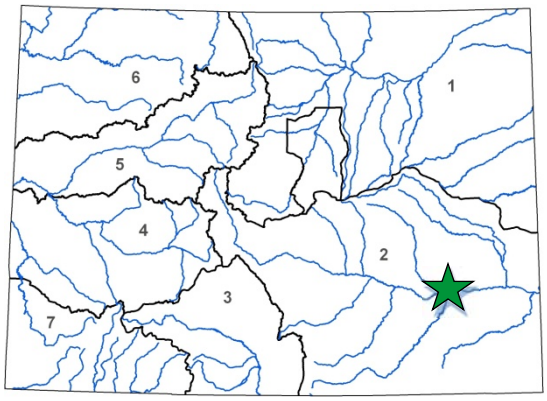
Southeastern Colorado Water Conservancy District

November 2019 Board Meeting

LOAN DETAILS	
Project Cost:	$600,000,000
CWCB Loan-Grant Package:	$100,000,000
Loan Term and Interest Rate:	TBD
Funding Source:	Severance Tax Perpetual Base Fund

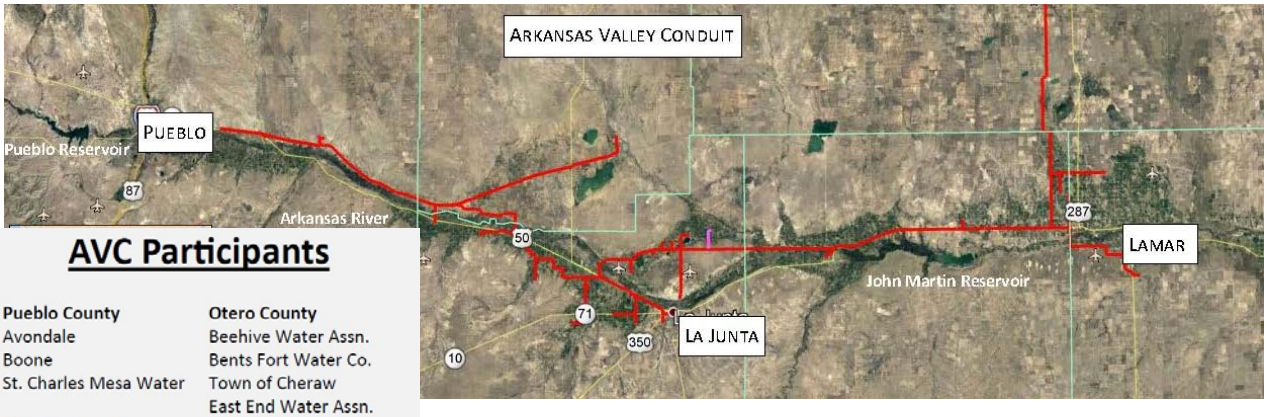
BORROWER TYPE		
Agriculture	*Municipal*	*Commercial*
0%	100% Low - TBD% Mid -0% High	0%

PROJECT DETAILS	
Project Type:	Water Supply System
Average Annual Diversions:	N/A



LOCATION			
County:	Pueblo, Crowley, Otero, Bent, Prowers		
Water Source:	Arkansas River		
Drainage Basin:	Arkansas		
Division:	2	*District:*	14

The Arkansas Valley Conduit was authorized by Congress in 1962 as part of the Fryingpan-Arkansas Project (Project), but was never built because local communities could not afford the cost. In 2000, the Southeastern Colorado Water Conservancy District, working with people in six Lower Arkansas Valley counties, renewed planning efforts for the AVC. In 2009, new federal legislation (PL 111-11) reauthorized construction of the AVC, with a 65 percent federal share, and 35 percent local share. The legislation also allows miscellaneous revenues from the Project to fund and repay construction costs. The Bureau of Reclamation issued an Environmental Impact Statement in 2013, and a Record of Decision in 2014.



AVC Participants

Pueblo County
Avondale
Boone
St. Charles Mesa Water

Crowley County
96 Pipeline Company
Crowley County Water Association
Crowley
Olney Springs
Ordway
Sugar City

Bent County
Hasty Water Company
Las Animas
McClave Water Association

Prowers County
Lamar
May Valley Water Assn.
Wiley

Kiowa County
Eads

Otero County
Beehive Water Assn.
Bents Fort Water Co.
Town of Cheraw
East End Water Assn.
Eureka Water Co.
Fayette Water Assn.
Fowler
Hancock Inc.
Hilltop Water Co.
Holbrook Center Soft Water
Homestead Improvement
La Junta
Manzanola
Newdale-Grand Valley
North Holbrook Water
Patterson Valley
Riverside Water Co.
Rocky Ford
South Side Water Assn.
South Swink Water Co.
Swink
Valley Water Co.
Vroman
West Grand Valley Water
West Holbrook Water

The project will deliver clean drinking water to 50,000 people in 40 communities in southeastern Colorado. Domestic wells in the Arkansas River watershed east of Pueblo are contaminated by naturally occurring radioactive materials and high levels of salinity, nitrates and selenium. Both the primary treatment of water, and the disposal of bi-products such as brine are driving up costs for water providers, and some communities are unable to meet basic water-quality standards.

Arkansas Valley Conduit

HISTORY
Authorized by Congress in 1962

The Arkansas Valley Conduit (AVC) was authorized by Congress in 1962 as part of the Fryingpan-Arkansas Project (Project), but was never built because local communities could not afford the cost. In 2000, the Southeastern Colorado Water Conservancy District, working with people in six Lower Arkansas Valley counties, renewed planning efforts for the AVC. In 2009, new federal legislation (PL 111-11) reauthorized construction of the AVC, with a 65 percent federal share, and 35 percent local share. The legislation also allows miscellaneous revenues from the Project to fund and repay construction costs. The Bureau of Reclamation issued an Environmental Impact Statement in 2013, and a Record of Decision in 2014.

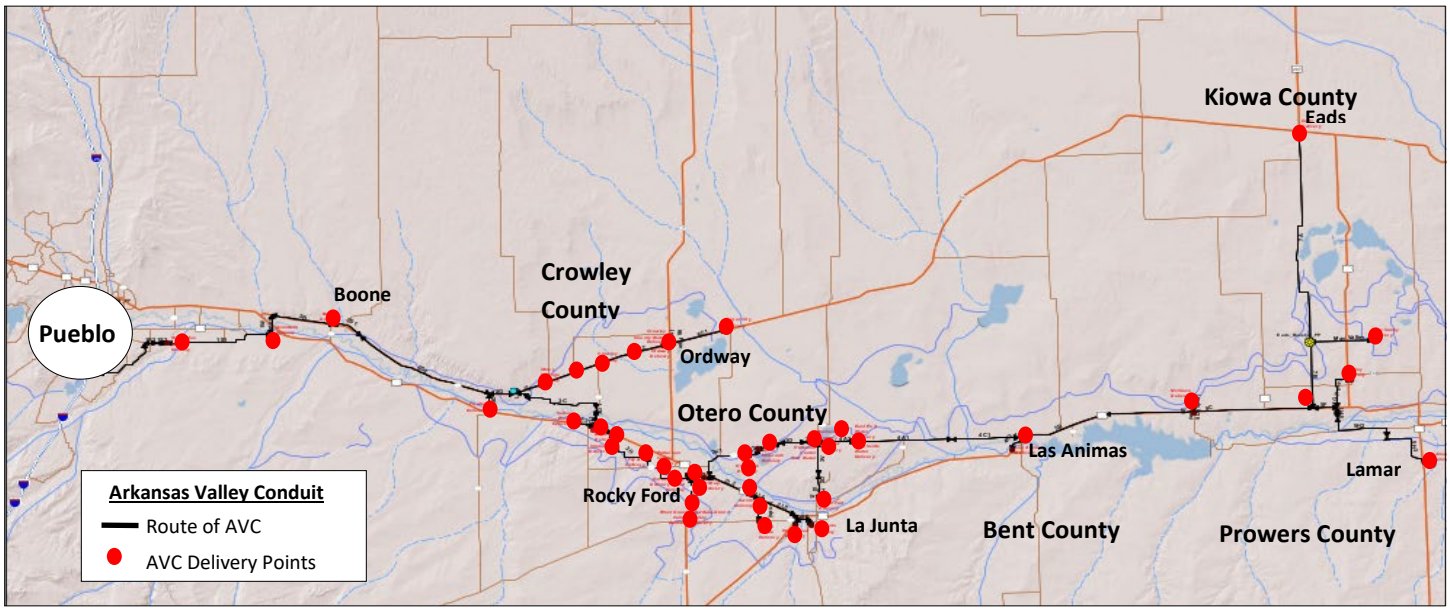
PURPOSE
Clean drinking water for 50,000 people in 40 communities

Residents in rural Colorado deserve and need clean drinking water, but for 50,000 people in 40 communities in southeastern Colorado, that basic human need is increasingly hard to meet. Deep wells in the Arkansas River watershed east of Pueblo are contaminated by naturally occurring radioactive materials. Shallow aquifers suffer from high levels of salinity, nitrates and selenium. Both the primary treatment of water, and the disposal of bi-products such as brine are driving up costs for water providers, and some communities are unable to meet basic water-quality standards. The AVC is the most cost-effective and efficient way to deal with the poor quality of water.

PROGRESS
First 25 miles almost done!

The AVC will use capacity in Pueblo Water's system to deliver water to bring water to participants. This amounts to the equivalent of 25 miles of pipe in the ground, which is a huge efficiency developed through collaborative discussions among Reclamation, the District and Pueblo Water in 2017-18. They agreed that the route through Pueblo would save time and money, while allowing development of the AVC in phases in order to reach the greatest needs. At the same time, Reclamation has completed feasibility design on the entire AVC, and is looking at more efficiencies as the AVC reaches communities to the east.

When completed, the AVC will provide a new source of clean drinking water for residents of southeastern Colorado. It will improve health, reduce utility costs and benefit the environment in the Lower Arkansas Valley.



Economic benefits

- Reduced costs from pumping and treating groundwater.
- Reduced plant maintenance costs and increase efficiency among small water systems.
- Reduced costs to treat return flows from desalinization processes.
- Less need to purchase new sources of water to augment wells.
- Improved infrastructure for homes and businesses.

Environmental benefits

- More efficient use of water.
- Cleaner source water toward meeting standards for both drinking water and effluent.
- Reduced dry-up of farm ground.
- Fewer health issues associated with contaminated drinking water.

Arkansas Valley Conduit: Key elements

- 40 communities from Pueblo to Lamar and Eads served by 270 miles of pipelines.
- Phased delivery using Pueblo Water infrastructure.
- Gravity-fed pipeline, with some pumping required.
- Pipeline and spurs connecting 40 communities.

State Water Plan nexus

- Closes the municipal gap.
- Improves water supply.
- Reduces demand for water
- Better water management
- Conserves water by reducing waste

AVC Participants

Pueblo County
Avondale
Boone
St. Charles Mesa Water

Crowley County
96 Pipeline Company
Crowley County Water Association
Crowley
Olney Springs
Ordway
Sugar City

Bent County
Hasty Water Company
Las Animas
McClave Water Association

Prowers County
Lamar
May Valley Water Assn.
Wiley

Kiowa County
Eads

Otero County
Beehive Water Assn.
Bents Fort Water Co.
Town of Cheraw
East End Water Assn.
Eureka Water Co.
Fayette Water Assn.
Fowler
Hancock Inc.
Hilltop Water Co.
Holbrook Center Soft Water
Homestead Improvement
La Junta
Manzanola
Newdale-Grand Valley
North Holbrook Water
Patterson Valley
Riverside Water Co.
Rocky Ford
South Side Water Assn.
South Swink Water Co.
Swink
Valley Water Co.
Vroman
West Grand Valley Water
West Holbrook Water

Includes all communities studied for the AVC

Congress of the United States
Washington, DC 20515

October 11, 2019

Secretary David Bernhardt
U.S. Department of the Interior
1849 C Street, NW
Washington, DC 20240

Dear Secretary Bernhardt,

We are writing to update you and request your assistance on the Arkansas Valley Conduit (AVC) as the Administration's budget for Fiscal Year 2021 is developed and the congressional appropriations process for Fiscal Year 2020 reaches its final stage. The project is a top priority for us as we discussed in February with Commissioner of Reclamation Brenda Burman.

Our meeting with Commissioner Burman was prompted by the lack of a budget request for the AVC from the Administration for the second year in a row. We asked that she convene a process to determine how to move this safe drinking water project forward in a more timely fashion and with a robust funding plan. Since that meeting, there have been several important actions that we want to bring to your attention.

Both the House and Senate Energy and Water Appropriations bills have provided measurable budget increases for the Bureau of Reclamation in Fiscal Year 2020. Please note the attached language from the Senate measure, which makes clear the committee's desire for how these additional funds are to be allocated. We fully support the inclusion of this language in any funding measure that is sent to President Trump, and we ask for your support in allocating $6 million for the AVC. Further, we ask that you work with the Office of Management and Budget to include $6 million for the AVC in the President's Fiscal Year 2021 budget request.

The Arkansas Valley Conduit's purpose is to provide a delivery system for clean drinking water to 50,000 rural residents of southeastern Colorado. It draws on a water supply available for this very purpose from Pueblo Reservoir, the primary element of the Fryingpan-Arkansas Project. The high-quality water from the reservoir will replace groundwater supplies that are contaminated with naturally occurring radionuclides, in many cases well above federal Safe Drinking Water Act standards. The Colorado Department of Public Health and Environment has given water providers in violation of this standard until 2025 to show meaningful progress on replacing this contaminated groundwater.

Projects like the AVC are not inexpensive, but they are necessary and just for the health and safety of our citizens. The Southeastern Colorado Water Conservancy District, the Fryingpan-Arkansas Project's local sponsor, recognizes the need to increase cost efficiency and reduce the

need for federal appropriations wherever possible. The District has been focused on such efforts and has been working with the Bureau of Reclamation to change the original route of the delivery system to reduce construction costs.

In addition, the District and the Bureau have completed a Value Planning process. In that process, further efficiencies were discussed, including accessing other federal and non-federal programs and resources to help pay for the project. Specifically, the District is working with the State of Colorado on non-federal support, and the District is developing a plan to connect water providers with funding sources from the U.S. Environmental Protection Agency's Safe Drinking Water Act state revolving fund and from the U.S. Department of Agriculture's rural development program. These funds can be used to build connections from the providers to the main pipeline, thus dedicating the Bureau of Reclamation's investment to the "main stem" of the conduit.

Financial contributions from the State of Colorado can come in the form of grants, loans and direct appropriations. However, such funding mechanisms must go through the Colorado General Assembly, which will convene in January. Local legislators and Colorado's governor are committed to working on a funding agenda for the AVC.

We ask that the Administration be equally committed to supporting a clean drinking water system for 50,000 people living in small communities along the Arkansas River. The zip codes or census count of these rural areas should not preclude a significant federal partnership to provide safe drinking water as required by federal law.

Thank you for your consideration. We look forward to speaking with you further as the current and upcoming budget processes proceed.

Sincerely,

Cory Gardner
United States Senator

Michael F. Bennet
United States Senator

Scott Tipton
Member of Congress

Ken Buck
Member of Congress

COLORADO
Governor Jared Polis

August 30, 2019

Larry Crowder
State Senator
200 East Colfax Avenue
Denver, CO 80203

Dear Senator Crowder:

Thank you for contacting our office in regards to the Arkansas Valley Conduit, a critical component of the Fryingpan-Arkansas Project that is awaiting construction in southeastern Colorado. We share a desire to ensure the citizens of Pueblo, Otero, Bent, Crowley, Kiowa, and Prowers counties have access to clean drinking water supplies and understand the importance of the Arkansas Valley Conduit as a long-term solution. It is a priority for our administration to create a Colorado for all, which includes assisting our rural communities to advance locally driven solutions.

The Arkansas Valley Conduit is an important project that will dramatically improve water quality and provide reliable water supplies to 40 communities. I agree that it is critical for our federal partners to commit dedicated funding to contribute to the construction of this project per a cost-sharing plan approved by Congress in 2009. To demonstrate the seriousness of local funding and support, the Colorado Water Conservation Board authorized a $60.6 million low-interest loan for the design and construction of the pipeline, and approved approximately $18 million of the loan funds for the Pueblo. Hydroelectric Dam Project to create a needed revenue source for the project. In addition to securing local funding, I am pleased to hear that collaborative discussions continue between Southeastern Colorado Water Conservancy District, the Bureau of Reclamation, and Pueblo Board of Water Works to route the pipeline through Pueblo, saving time and money. These commitments to refine costs and identify efficiencies signal that it is time for Congress to fulfill its commitment to begin providing its federal cost share for the project.

I will continue to support efforts to work with our Departments on opportunities to seek state financing and grant opportunities to advance this project. Further, my administration will continue to identify opportunities to secure federal funding by acknowledging the local momentum and long-standing efforts to bring this project to fruition.

Sincerely,

Jared Polis
Governor

STATE OF COLORADO

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MEMORANDUM
(Updated November 28, 2006)

TO: Colorado Water Conservation Board Members

FROM: Bruce Johnson, P.E.
Mike Serlet, P.E., Chief
Water Supply Planning and Finance Section

DATE: November 6, 2006

SUBJECT: **Agenda Item 10a, November 13-15, 2006 Board Meeting**
Water Supply Planning and Finance Section – New Project Loans
SECWCD Water Activity Enterprise – Arkansas Valley Conduit

Introduction

The Southeastern Colorado Water Conservancy District ("District"), acting by and through its Water Activity Enterprise ("Enterprise"), is applying for a $60,000,000 loan from the Severance Tax Trust Fund Perpetual Base Account, to provide the 20% local share for construction of the Arkansas Valley Conduit (AVC), a 138 mile water supply pipeline extending from Pueblo Reservoir to the City of Lamar. The estimated total cost of the project is $300,000,000. Please see the attached Project Data Sheet.

Background

History – The Fryingpan-Arkansas Project was authorized in 1962 by Public Law 87-590 (76 Stat.389), and was constructed between 1964 and 11982. The Project is a trans-mountain diversion system that delivers supplemental water to cities, farmers and ranchers all along the Arkansas River. Two components of the original design were conduits to move water from Pueblo Reservoir to communities in need of clean water for treatment. One of these conduits, the Fountain Valley Conduit, has already been built and has been delivering water to Colorado Springs and its surrounding communities since 1985. The second conduit has not yet been built. The Fryingpan-Arkansas legislation calls for the conduits to be paid for 100% by the communities that will be receiving the water. The large and growing population of Colorado Springs and its surrounding areas, made possible the construction of, and payoff of the Fountain Valley Conduit a reality. However, the lower Arkansas Valley conduit, from Pueblo to Lamar, has never been built because the communities could not afford 100% of the project cost.

Process Overview – In 2000, a group of water providers and governmental agencies in Otero County formed a group called the Waterworks Committee. The group was formed to address water issues and began the process of trying to get the Arkansas Valley Conduit built. This effort was successful in bringing the necessary groups together and starting the process of moving the conduit forward. The Waterworks Committee, under the oversight of the Enterprise requested a CWCB

grant for $100,000 for 50% of the cost of a Feasibility Study. This grant was approved in January 2001. SECWCD contributed $40,000 to the study. Other contributors included each of the five counties to be served by the conduit as well as the participants themselves. GEI Consultants, Inc., was hired and the study began November 2001 and was completed in June 2003. The "Feasibility Evaluation of the Arkansas Valley Pipeline" established a feasible route for a raw water pipeline at a cost of approximately $182,500,000. This study proposed that the only way the valley could afford to build the project was if there was a federal cost share arrangement. At the conclusion of the $200,000 study to verify that the conduit could be built, Waterworks asked the District to assume the responsibility of moving the conduit process to completion. The District agreed and is now working with water providers of the lower Arkansas Valley to accomplish this much needed project. An Arkansas Valley Conduit Advisory Committee was formed in 2003.

SECWCD took the lead on the project and in July 2004 hired Black & Veatch Engineers to review the project costs. The "Arkansas Valley Conduit Financial Feasibility Review Study" was completed in October 2004. It concluded that a more likely estimate of the cost was $252 million. In July 2005, the Colorado Congressional delegation met in La Junta. The meeting with Senators Allard and Salazar and Congresswoman Musgrave concluded with the Senators requiring answers to the following two key questions:

1. Is there enough water supply?
2. Can conduit participants afford their cost share?

Black & Veach was hired to complete an "Investigation Leading to the Preliminary Design of the Arkansas Valley Conduit" study, which was completed in June 2006. The study provided "bookends" of probable costs, based on the several assumed design scenarios:

Average Fry-Ark Yield	$212,660,000
Maximum Month 2050	$286,000,000
Maximum Day 2050	$328,000,000

The costs were deemed to be in the competitive range of costs to the participants. The annual payback cost would range from $2.5 to $4.8 million ($1.50 to $2.20 per 1000 gallons.) It was determined that centralized treatment (without disinfections) would provide high quality water to participants, with the most operational flexibility at the lowest overall cost.

Recently, the U. S. Bureau of Reclamation (USBR) "Arkansas Valley Conduit Re-evaluation Statement" – April 2005, became available. This is also known as the "Look Back Study". This study concluded that a water distribution system was technically viable, and the capital cost of a raw water system would be $265,000,000. This cost is comparable to the Black & Veatch estimate, if the cost of centralized treatment is added.

"Letters of Intent" to participate in the AVC were received from 30 of the 41 participants, representing 94.5% of the requested water demand from the project. (Other members not providing letters as yet have been making their annual financial contributions to the project.) A copy of the proposed Participant Funding Agreement to be used between SECWCD and each of the participating entities is being prepared for review by the CWCB. Prior to execution of a State loan contract all funding agreements will be required to be executed. A list of the AVC participants, and those entities who have submitted Letters of Intent is attached.

Project Need

Water Quality - The proposed AVC is designed to bring relatively clean raw water to over 41 water providers in the lower Arkansas Valley, who currently either take water from the Arkansas River, and\or pump from shallow and\or deep aquifers. This pumped water has quality problems and

requires significant treatment before it meets Clean Drinking Water standards. The pipeline will be an immediate and long-term solution for many smaller communities that are currently out of compliance with Health Department and Clean Drinking Water requirements. Sixteen water providers are currently in violation of Safe Drinking Water Act requirements and are under compliance orders from the State Health Department. The conduit will provide water that will help bring these communities into compliance. The alternative to the conduit is for the water providers to continue service as they have. All of these sources have significant problems with water quality. This alternative would require each individual water provider to upgrade their treatment facilities or to find alternative cleaner sources of water.

Water Demand - The current (2005) water demand of all Conduit participants is 10,500 AF. Taking into account water supplies from other sources, the total Conduit delivery requested by participants based on 2005 needs is about 6,600 AF per year. The total future year demand (2050) of all conduit participants is projected to be 19,000 AF, with the amount of Conduit delivery requested at approximately 11,700 AF per year.

Proposed Project Overview –The conduit will begin at Pueblo Reservoir Dam, where a municipal outlet is already in place and reserved for the specific use of the conduit. The conduit will gravity flow approximately 138 miles down the Arkansas River Valley to Lamar. The conduit will first flow by the St. Charles Mesa Water District where it will enter a water filtration plant. As the conduit moves down the valley, spurs will take off the main line to deliver water to local and regional water providers. The water will be provided strictly for municipal and industrial purposes, but would not be considered finished drinking water. Final chlorination or treatment will be left up to each water provider. The pipeline will be designed for the Maximum Month 2050 scenario.

Federal Legislation Status:

Stand-alone Authorization – In May 2005, Senator Wayne Allard, along with co-sponsor Sen. Ken Salazar, introduced S. 1106 that would provide a federal cost share of approximately 80% paid by the Federal Government, and 20% paid locally. A similar bill H.R. 2555 was introduced by Rep. Marilyn Musgrave in May 2005. This legislation is working its way through Congress and it is hoped to be passed before the end of 2006. On September 21, 2006 a hearing on S. 1106 was held by the Senate Committee on Energy and Natural Resources Subcommittee on Water and Power. The bill was opposed by the USBR as having a Federal cost share inconsistent with Fry-Ark legislation and general USBR law and current policy. No action was taken before the election adjournment.

Water Resources Development Act (WRDA) – The WRDA bill includes $69 million in authorization earmarks for the Arkansas Valley Conduit, which would be directed to the U.S Army Corps of Engineers. No action was taken before the election adjournment. If this funding is authorized, a cooperative agreement between the Corps of Engineers, and the USBR and the Enterprise will be required for construction to proceed.

State Tribal Assistance Grant (STAG) – No further action has taken place on the Interior, Environment and Related Agencies Appropriations bill for Fiscal Year 2007. The bill cleared the House with a $675,000 earmark under EPA's State/Tribal Assistance Grants, and the Senate bill which has been approved by the full Appropriations Committee includes $600,000. The final number will be dealt with in conference, most likely after the November election. It is likely that this funding would be used for: Local Cost Share Funding Evaluations, Financial Planning/Evaluations, Institutional Issues/Assessments, Water Supply Evaluations, Planning Efforts, Technical Design Evaluations, and Project Management\Coordination.

Feasibility Studies

The SECWCD has completed a preliminary feasibility study, which includes the previous studies referenced above. Staff considers the submitted feasibility study to be preliminary, as it is not possible to answer a number of significant questions related to the project at this time. These include:

- Federal 80%/20% (federal/local) cost-share authorization
- Federal funding appropriations for 80% of project cost
- Institutional questions pertaining to project design, ownership, and operation of the AVC
- Project Schedule – permitting, design, construction
- Final Financial Program – including Participant Funding Agreements

In accordance with the CWCB Financial Policy #2 (Feasibility Study), the CWCB, pursuant to Section 37-60-122, C.R.S., requires that all projects have a completed feasibility study prior to loan consideration by the Board. In those cases where it is impractical to complete the study prior to Board approval and/or General Assembly authorization, the Board may consider a conditional approval. This approval shall be conditioned upon completion of a feasibility study, in accordance with CWCB guidelines, by a specified date. In no case will a CWCB loan contract be executed without a completed feasibility study. The project sponsor will be required to complete the feasibility study to the satisfaction of the CWCB Director or his designee by an appropriate date recommended by the CWCB staff and approved by the Board.

Southeastern Colorado Water Conservancy District

District - The District was created under Colorado law on April 29, 1958, for the purpose of developing and administering the Fryingpan-Arkansas Project. The District includes parts of 9 counties, and extends along the Arkansas River from Buena Vista to Lamar, and along Fountain Creek from Colorado Springs to Pueblo. It makes supplemental water available to approximately 280,600 acres of irrigated land, as well as municipal and domestic water suppliers to the District's approximately 600,000 constituents. The District is the legal agency responsible for repayment of the reimbursable costs of the Fry-Ark Project and is responsible for administering the distribution of water obtained through the project. The initial repayment obligation of the District was $132,237,478 with a maturity date of 2032. The remaining amount as of December 31. 2005 is $85,796,075 with an annual payment of about $5,000,000. Revenues to meet the annual payments are provided by an ad valorem mill levy applied against property in the District. Property tax revenues are about $5,400,000 per year, out of an approximate $12,000,000 annual budget. The District has a 15-member Board of Directors, appointed by the State District Court system and serving 4-year terms. The Fountain Valley Authority is a separate entity responsible for a pipeline constructed to deliver water to Colorado Springs and the surrounding area.

Enterprise – In 1995, the District created the Water Activity Enterprise for the purpose of pursuing, establishing and continuing water activities as a business, separate and distinct from the District's governmental activities, and specifically to administer the sale and management of water, including the Fry-Ark Project return flows. Its boundary is the same as the District, and the Enterprise is authorized to incur debt. Currently, its role has expanded to include the PSOP (Preferred Storage Options Plan) and the AVC. The Enterprise, a business function of the District, is the sponsoring agency for the AVC project, and is acting as the oversight agency for the District and the Conduit participants. The Enterprise itself has no taxing authority, but will function as the business entity to handle the process leading up to and the actual construction of the conduit, and collecting from participants and payment of the loan to the CWCB.

Water Rights

Project Water - The District has rights to import water from the western slope through the Fryingpan-Arkansas Project. The original estimated yield of the project was 69,100 acre-feet, but the past 25 year historical average of allocations has been about 48,160 acre-feet. Of this diversion, 12% is reserved for municipalities east of Pueblo for domestic use. This has averaged about 5,779 acre-feet per year. This is the water that is expected to be taken down the conduit to these municipalities.

Return Flows – Pursuant to the USBR Repayment Contract, the District, through the Enterprise, retains dominion and control over all Fry-Ark Project return flows. These return flows can be exchanged (1939 decree) back up to Pueblo Reservoir where they are available to the originating entity for reuse. These return flows can provide up to an additional 1,600 acre-feet of water. Storage is available to these entities in Pueblo Reservoir because they are in the SECWCD service area. This storage will help provide water in the years when less than average water is provided by the Fry-Ark Project. Taking return flows into consideration will help meet the current demand that the municipalities are requesting down the conduit.

Future growth beyond these yields will require the acquisition of additional water rights to meet any future demands. There is currently no limitation that only Fry-Ark Project water can be taken down the conduit. Thus, there is opportunity for additional water to be available to the conduit for future growth. As much as an additional 6,700 AF would be required to meet 2050 demands.

A summary of project water is:

Fry-Ark 12% allocation	5,779 AF	
Municipal Return Flows	1,600 AF	(776 AF needed to meet 2005 Requested)
	7,379 AF	
2005 Requested Amount	6,555 AF	

Project Description

The conduit will begin at Pueblo reservoir about 5 miles west of Pueblo, and continue approximately 138 miles to Lamar. The pipe will be gravity flow, and the size will vary from 42" at Pueblo Reservoir to 24" when it reaches Lamar. The conduit will continue east, making deliveries of water to each entity along the way and there will be several spurs that will take off of the main conduit and provide water to local and regional treatment facilities. An outlet works for the conduit already exists at Pueblo Reservoir. This outlet works has reserved 30.94 cfs of capacity for the Arkansas Valley Conduit. From the outlet works at Pueblo Dam it is expected that the conduit will follow the Bessemer Ditch right-of-way to a point on the St. Charles Mesa east of Pueblo. This will allow for a gravity flow pipeline, thus alleviating the need for any pumping. At a point near the St. Charles Mesa Water Treatment facility, the pipeline will provide a spur to the St. Charles Mesa Water Treatment facility and then run the water through a filtration plant before continuing down the Arkansas valley. By filtering the water at this point, each provider will only have to chlorinate the water for delivery to their customers. Once the conduit reaches Ordway, a spur will angle to the northeast to provide water to all of the entities within Crowley County. The main line will continue east with spurs branching off to various regional water providers along the way. The conduit will terminate at the City of Lamar water treatment facility. It is planned to provide operational storage at two locations along the conduit to regulate pressure as well as provide storage for emergency and maintenance purposes.

The proposed filtration plant will provide preliminary treatment, or "pre-conditioning", of the water to remove turbidity and to provide a more uniform quality of water to downstream users. The water would be considered non-potable water, have no residual disinfection, and would not meet Federal or State public drinking water standards. The level of treatment proposed would decrease operational and maintenance costs of the conduit, and also reduce turbidity/sludge accumulation in the on-line storage tanks. Staff feels that financing a project with this level of preliminary water treatment does not violate the statutory restriction that CWCB funds not be used for "domestic water treatment and distribution systems."

The Total Project cost is estimated to be:

1.	Environmental Study (EIS)	$ 4,000,000
1.	Engineering & Admin. (11%)	27,000,000
2.	Legal (1%)	2,000,000
3.	Permitting (1.5%)	3,000,000
4.	Construction Management (5%)	7,000,000
5.	Construction Cost	$200,000,000
6.	Construction Contingency (20%)	50,000,000
7.	Rights-of-way/Easements	7,000,000
	TOTAL	$300,000,000

Sources of Funding for the Project would include:

1.	CWCB Loan	$60,000,000	(available July 1, 2007)
2.	Federal WRDA – 2006 (pending)	69,000,000	(available Oct. 1, 2007)
3.	Federal – Future Appropriation	171,000,000	
	TOTAL	300,000,000	

Schedule - Implementation of the conduit is contingent upon federal legislation. Once legislation is passed, appropriation of the money is required. The District expects federal funds to be available at the beginning of the 2008 Federal Fiscal Year (Oct. 1, 2007). Based on current understanding of the congressional process, the Enterprise is planning to begin the design phase of the conduit in late 2007. Once the preliminary design is completed, the NEPA process will begin. This is expected to take about two years to complete. All of these costs are included in the legislation and the requested loan package from the CWCB. It is anticipated that actual construction will begin following the NEPA process at which point it should take about two years to complete the conduit.

It is expected that funding for the Conduit will come in phases. The WRDA bill that is expected to pass this year, should have appropriations of $69 million for the Federal Fiscal year beginning October 2007. It is expected that subsequent funding will be appropriated each year at various amounts as our delegation is able to secure them. If funding is appropriated each year it could take 6 years for the completion of the conduit. This time frame ties in with the preliminary engineering, NEPA and construction process.

Permitting - No easements or rights of way have been obtained at this point. These will be obtained during the preliminary design phase. Permitting will be obtained after the NEPA process is completed. The only permitting issue addressed in the USBR "Look-back Study" study is an Environmental and a Cultural Resource Investigation.

Institutional Concerns – The Enterprise will be the lead agency on this project through the completion of the construction of the conduit. It will be the contracting agency for all financing,

design, NEPA compliance and construction. The participating entities will be responsible for actual payment of the loan. The operating structure of the conduit has not been resolved, but there are three possible scenarios for operation. The first is for the Enterprise to retain ownership of the conduit and operate it. The second scenario is for an independent Authority to operate the conduit as a subcontract from the District. A third scenario is for the conduit to be operated like a mutual ditch. It is anticipated that some type of Federal Memorandum of Understanding (MOU) will be required, to address who will design, own and operate the conduit.

Conservation Plans – Project participants that deliver over 2,000 AF of water annually, are required to have an approved Water Conservation Plan. This will likely involve three of the larger entities – Lamar, La Junta, and St. Charles Mesa Water District. Prior to execution of a State loan contract, all "covered entities" participating in the project will be required to have a CWCB-approved Water Conservation Plan in place. Affected entities are working with Veva McCaig, of the CWCB Office of Water Conservation and Drought Planning, on the plan requirements and possible funding assistance.

Financial Analysis

The total estimated cost of the project is $300,000,000 and the project participants qualify for the Municipal Low Income Interest Rate. Staff is recommending a maximum loan amount of $60,000,000 (20% of the estimated project cost) for 30 years at an interest rate of 3.25%. The remaining 80% will be from future Federal appropriations.

Table 1 is a summary of the financial aspects of the project. A CWCB Loan of $60,000,000 would have an annual payment of $3,476,993 (including the 10% reserve requirement) at an interest rate of 3.25% for 30 years. Repayment of the CWCB loan will be by a pledge of revenues issued by each of the 41 participating water providers, through Participant Funding Agreements with the Enterprise. The Participant Funding Agreements will need to address the 10% reserve costs as well as Interest During Construction (IDC). Operations & Maintenance costs (O & M) for the selected alternative is projected to run $1,300,000 annually, for a total obligation to project participants of $4,776,993 annually.

The Enterprise has requested a loan term of 40-years due to the size of the loan, indicating that the longer term is more typical of a project of this size (the Fryingpan-Arkansas Project is a 50-year payoff with USBR), and the longer term is needed to make the project affordable to the smaller communities in an economically disadvantaged area (evidenced by the fact that all entities qualify for CWCB low-income rate.) The 30-year term would result in about a $500,000 per year difference in the total loan payment, and a 19% increase overall translated to water bills. The 40-year loan payment (including the 10% reserve requirement) would be $2,971,844. Including annual O & M costs of $1,300,000, the total obligation to project participants would be $4,271,844.

Staff finds the 40-year request to be inconsistent with current CWCB Policy No. 7 (Lending Rate Determination), which provides the policy for establishing 30-year lending rates, and lending rate reductions for 20-year and 10-year loans. Further, staff does not support this request for the following reasons:

1. The July 2005 Black & Veatch study acknowledged the maximum 30-year loan term offered by CWCB, and took this into account in their analysis of possible funding scenarios.
2. The annual costs and water rates with a 30-year loan are still within the maximum range presented in the study. (Annual payback cost from $2.5 to $4.8 million and $1.50 to $2.20 per 1000 gallons.)

3. The loan is being made to the Water Activity Enterprise with a pledge of user revenues, as opposed to the District overall with a pledge of property tax revenue (similar to the USBR Fry-Ark Project Obligation), which would provide stronger security. A 40-year term would therefore result in more risk to the CWCB than a 30-year term.
4. CWCB has made a number of loans to Low-Income Municipalities with a 30-year term. If the Board decides to grant the request for a 40-year term, Staff recommends that the interest rate be increased by 0.25%.

It should also be noted that interest on the 40-year loan would be $13.3 million more than for the 30-year loan, increasing from $34.8 million to $48.1 million.

Table 1. Financial Summary

Total Project Cost	$300,000,000
Number of Financial Participant Entities	41
Number of Taps Served	20,100
Population Served	47,200
CWCB Loan Amount (30 years)	$60,000,000
CWCB Loan Payment (includes 10% reserve)	$3,476,993

Creditworthiness: The Enterprise has one long-term contract obligation with the USBR covering the District's share of various dam safety repair costs. The original obligation was $1,322,000, and the current balance is $962,000 with an annual payment due of $60,000 through 2021. The Enterprise maintains a reserve account to secure this debt, as opposed to a pledge of revenues.

Table 2 shows the Financial Ratios and indicates overall average ability for the Enterprise to repay the $60,000,000 CWCB loan, with revenues received from participating entities. Future Year ratios should be considered preliminary, pending completion of the final feasibility study.

Table 2. Financial Ratios

Financial Ratio	***Without the project (Aver. 2004-05)***	***With the project - Future Year***
Operating Ratio (revenue/expense) weak: less than 100% average: 100% - 120% strong: greater than 120%	156% (strong) *(969K/644K)*	287% (strong) *(5746K/2000K)*
Debt Service Coverage Ratio (revenues-expenses)/debt service weak: less than 100% average: 100% - 125% strong: greater than 125%	540% (strong) *(969K-644K/60K)*	106% (average) *(5746K-2000K/3537K)*
Cash Reserves to Current Expense weak: less than 50% average: 50% - 100% strong: greater than 100%	87% (average) *(615K/704K)*	10% (weak) *(650K/5537K)*
Annual Operating Cost per Acre-Ft. (6,555 AF) weak: greater than $20 average: $10 - $20 strong: less than $10	N/A	$729* *4777K/6555AF)*

* For Arkansas Valley Conduit Only, equates to $2.24 per 1,000 gallons.

Collateral – Security for the loan will be a pledge of SECWCD Water Activity Enterprise revenues, including revenues received from the Arkansas Valley Conduit participants through Participant Funding Agreements. The Agreements with the SECWCD Water Activity Enterprise shall include: a pledge of participant water revenues, backed by a rate covenant, and include a "step-up" provision that would be enforced by the SECWCD in the event of a participant withdrawal or default. In addition, the Agreements will need to address Interest During Construction (IDC), the 10% reserve requirement, the CWCB 1% Loan Service Fee, and the District and Enterprise commitment of Fry-Ark Project and Water Return Flows to the project. The State contract with the Water Activity Enterprise, shall also include a "step-up" provision whereby the Enterprise agrees to cover the loan repayment shortfall in the event that any of the project participants fail to make their loan repayment to the Enterprise. The collateral will be in compliance with CWCB Financial Policy #5 (Collateral).

Economic Benefits

The alternative cost of not building the conduit has been established to between $250 million and $350 million. The alternatives require upgrade of almost every treatment facility as well as building new treatment plants in the Arkansas Valley. Additionally, the two municipalities, La Junta and Las Animas, with reverse-osmosis plants are facing a brine disposal problem. The State has informed them that they will no longer be able to directly dispose of their brine to the river. The alternatives are very expensive and will continue to get even more expensive as regulations tighten. The economic benefit of this project goes to the very survival of many of the small towns. With the threat of shutdown looming for some water providers due to non-compliance with Health Department standards, there is the possibility of these small municipalities being forced out of existence. Future economic sustainability or development in the lower Arkansas Valley will be predicated on the ability to provide clean water to any business or industry looking at locating in the Arkansas Valley. Without this conduit, there is no guarantee that clean water will be available to entice the needed economic development to sustain the Arkansas Valley.

Social and Physical Benefits

The conduit will enhance many social aspects of the Arkansas Valley. Currently people use bottled water, under-sink reverse osmosis treatment, water softeners, and other methods of treatment just to have an acceptable source of water for drinking and cooking. In some places, even the odor of the water is enough to prevent people from drinking it. Clean drinking water is essential to the social fabric of the Arkansas Valley. Physically, the water delivered down the conduit will help in many ways. Currently pipes in houses and businesses deteriorate rapidly due to the quality problems of the water. Household appliances do not last nearly as long as they should due to the water quality problems. By providing this cleaner source of water, both the social and physical aspects of life in the valley will increase dramatically.

Recommendation

Staff recommends a conditional loan approval not to exceed $60,600,000 ($60,000,000 for project costs and $600,000 for the 1% Loan Service Fee in accordance with the CWCB Loan Policy #16), to the Southeastern Colorado Water Conservancy District (SECWCD), acting by and through its Water Activity Enterprise, from the Severance Tax Trust Fund Perpetual Base Account, to provide the 20% local share for construction of the Arkansas Valley Conduit, a 138 mile water supply pipeline extending from Pueblo Reservoir to the City of Lamar. The recommended terms of the loan are 30 years at 3.25% per annum. Security for the loan will be a pledge of SECWCD Water Activity Enterprise

revenues, including revenues received from the Arkansas Valley Conduit participants through Participant Funding Agreements.

Staff further recommends that final approval of the loan be conditioned upon all other standard contracting provisions of the CWCB, as well as the following:

1. Final Feasibility Study - Prior to execution of a State loan contract, the project sponsor is required to complete the feasibility study to the satisfaction of the CWCB Director or his designee, including institutional and financial program details.

2. Participant Funding Agreements

   a. Prior to execution of a State loan contract, all proposed Participant Funding Agreements contemplated in the Loan Application & Feasibility Study shall be executed, and copies submitted to the CWCB. The format of the agreements shall be as agreed upon by the CWCB and the Enterprise prior to execution with participants.

   b. Water Allocation – Participant Funding Agreements shall address water allocation to the Arkansas Valley Conduit. Based on the annual availability of Fry-Ark Project water, the District and the Enterprise shall make every attempt to allocated water in such a manner as to meet the requested demand (6,555 acre feet) of the participants. In average years, this will require the allocation of a minimum of 776 AF of available return flows to the project, or an equivalent amount of water from other sources.

3. Conservation Plans – Prior to execution of a State loan contract, all "covered entities" participating in the project are required to have a CWCB-approved Water Conservation Plan in place.

4. Federal Authorization - No State loan contract shall be executed until Federal legislation *to authorize the federal/local* cost-share for the Arkansas Valley Conduit has been approved.

5. Federal Funding Appropriation – No State loan contract shall be executed until Federal legislation appropriating construction funds for the Arkansas Valley Conduit has been approved.

6. CWCB Loan Contract –

   a. Time Limit – Provisions pertaining to the time limit for loan approval shall be as outlined in CWCB Financial Policy #2 (Time Limits), with the following exception: The moneys appropriated in the CWCB Water Projects Bill shall remain available for the designated purposes until the project is completed; except that if the SECWCD Water Activity Enterprise does not enter into a loan contract with the CWCB within two years after the effective date of the CWCB Water Projects Bill (May 2007), then the moneys appropriated shall no longer be available for the designated purposes and shall revert back to the Severance Tax Trust Fund Perpetual Base Account.

   b. Step-up Provision - The contract with SECWCD Water Activity Enterprise, shall include a "step-up" provision, requiring that if any project participants fail to make their loan repayment to SECWCD, the Enterprise will cover the shortfall.

c. *Taxpayer's Bill of Rights (TABOR) Compliance – The Enterprise will supply to the CWCB, a TABOR compliance letter prior to entering into the State contract, with respect both to the loan to the Enterprise and the step-up provisions of the participants' agreements.*

7. Federal Memorandum of Understanding (MOU) – It is contemplated that an MOU between the SECWCD Water Activity Enterprise and a federal agency or agencies will be necessary to address such items as design, ownership and operation of the Arkansas Valley Conduit. This agreement shall be in place prior to execution of a State contract.

8. Status Report on Conditions - Prior to executing a State loan contract, the CWCB staff shall provide a status report to the Board on the fulfillment of the above loan approval conditions.

9. *Loan Disbursements – Disbursements from the CWCB to the Enterprise will be in the same percentage (and time frame) relative to the total CWCB loan amount, as disbursements made from the Federal government relative to the total Federal government cost-share commitment.*

cc: Mr. Bill Long, Chairman, SECWCD – Arkansas Valley Conduit Committee
Mr. James Broderick, General Manager, SECWCD
Mr. Phil Reynolds, Chief Financial Officer, SECWCD
Amy Stengel, AGO

Attachment

Action Taken by the CWCB on November 13, 2006

The CWCB approved the Staff Recommendation, with the modification of Condition #4 and the addition of Conditions #6c and #9, as shown in italics above.

Attachment - Arkansas Valley Conduit Participants

Organization	Acre-Feet Per Year	MGD	CFS	Thousand Gallons / day	Percentage of Demand Requested
96 Pipeline Co.*	34	.0304	.0470	30.35	100
Avondale, Town of	112	.1000	.1547	100.00	100
Beehive Water Assn.*	45	.0402	.0622	40.18	100
Bent's Fort Water Co.*	86	.0768	.1188	76.79	100
Boone, Town of	34	.0304	.0470	30.36	100
Cheraw, Town of*	56	.0500	.0774	50.00	100
Crowley Co. Water Assn.*	495	.4420	.6837	441.97	100
Crowley, Town of*	29	.0259	.0401	25.89	100
Eads, Town of*	112	.1000	.1547	100.00	50
East End Water Assn*	13	.0116	.0180	11.61	100
Eureka	66	.0589	.0912	58.93	100
Fayette	11	.0098	.0152	9.82	100
Fowler, Town of*	350	.3125	.4834	312.51	50
Hancock, Inc.*	13	.0116	.0180	11.61	100
Hasty Water Co.*	21	.0188	.0290	18.75	50
Hilltop Water Co.*	14	.0125	.0193	12.50	45
Holbrook	18	.0161	.0249	16.07	100
Homestead Improv Assn*	8	.0071	.0111	7.14	100
La Junta, City of*	1075	.9598	1.4849	959.84	50
Lamar, City of*	1120	1.000	1.5470	1000.02	50
Las Animas, City of*	498	.4447	.6879	444.65	100
Manzanola, Town of*	56	.0500	.0774	50.00	75
May Valley Water Assoc*	132	.1179	.1823	117.86	33
McClave Water Assoc.*	20	.0179	.0276	17.86	50
Newdale-Grand Valley*	63	.0563	.0870	56.25	100
North Holbrook	6	.0054	.0083	5.36	100
Olney Springs,m Town of*	81	.0723	.1119	72.32	95
Ordway, Town of*	208	.1857	.2830	185.72	100
Parkdale	12	.0107	.0166	10.71	100
Patterson Valley Water Co.*	28	.0250	.0387	25.00	100
Riverside	18	.0161	.0249	16.07	100
Rocky Ford, Town of*	896	.8000	1.2376	800.02	100
South Side Water Assoc.*	4	.0036	.0055	3.57	30
South Swink Water Co.*	57	.0509	.0787	50.89	65
St. Charles Mesa WD*	370	.3304	.5111	330.36	30
Sugar City, Town of*	195	.1741	.2693	174.11	100
Swink, Town of*	56	.0500	.0774	50.00	100
Valley Water Co.*	59	.0527	.0815	52.68	100
West Grand Valley	7	.0063	.0097	6.25	50
West Holbrook	12	.0107	.0166	10.71	100
Wiley, Town of	65	.0580	.0898	58.04	100
Total	**6,555**	**6.500**	**9.75**	**6,500**	

* Letter of Intent Received – representing 6,194 Acre Feet (94.5% of requested demand)