

RECORD OF PROCEEDING

**SOUTHEASTERN COLORADO WATER
ACTIVITY ENTERPRISE**

MINUTES

January 18, 2018

A regular meeting of the Board of Directors of the Southeastern Colorado Water Activity Enterprise (Enterprise) was held on Thursday, January 18, 2018 at 11:19 a.m., at the District office, 31717 United Avenue, Pueblo, Colorado.

President Long announced a quorum was present.

DIRECTORS PRESENT:

Bill Long	Ann Nichols	Curtis Mitchell
Gibson Hazard	Kevin Karney	Carl McClure
Howard “Bub” Miller	Tom Goodwin	Dallas May
Mark Pifher	Greg Felt	Seth Clayton
Alan Hamel	Andy Colosimo	

DIRECTOR(S) ABSENT AND EXCUSED:

None

ENTERPRISE OFFICIALS PRESENT:

Executive Director James Broderick; General Counsel Lee Miller; Administrative Manager Toni Gonzales; Principal Engineer Kevin Meador; Water Resources Engineer Garrett Markus; Issues Management Program Coordinator Chris Woodka; Finance Manager Leann Noga; and Federal Lobbyist Christine Arbogast.

VISITORS PRESENT:

Katiana Dillon, Wells Fargo Securities; Abby Ortega, Colorado Springs-Utilities; Doug Fitzgerald, U.S. Congressman Scott Tipton’s office; Dwight Gardner, U.S. Senator Michael Bennet’s office; Cathy Garcia, U.S. Senator Cory Gardner’s office; Roy Vaughan and Shane Hayden, U.S. Bureau of Reclamation; Jerry Peña, GEI Consultants; Curt Thompson, AECOM; Judy Leonard, Pueblo West Metropolitan District; and Steve Witte, Colorado Division of Water Resources.

APPROVAL OF MINUTES:

President Long said the minutes of the December 7, 2017 Board meeting were posted to the Board website for review, and if there were any corrections or additions. Hearing none, Mr. Karney moved, seconded by Mr. Howard “Bub” Miller, to approve the minutes. Motion unanimously carried.

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FINANCE COMMITTEE REPORT:

Treasurer Nichols reported the financial statements for October, November and draft December 2017 were posted to the Board website for review. Treasurer Nichols moved, seconded by Mr. Clayton, for acceptance of the October, November and draft December 2017 financial statements and payment of the January 2018 bills. Motion unanimously carried.

CONSENT ITEMS:

None

PRESENTATIONS:

FEDERAL LEGISLATION

Christine Arbogast reported we are still operating on a Continuing Resolution, but the possibility of a government shutdown is increasing. The possibility of an omnibus appropriations bill is not promising right now. Given these budget problems, other issues will have challenges moving forward.

The bill to increase both domestic and military spending for two years is undecided.

There are a few potential vehicles to move water policy forward. There will be a Water Resources Development Act (WRDA) under consideration. While this has traditionally been a Corps of Engineers bill, the last Water Resource Development Act in 2016 included provisions for the Bureau of Reclamation. This could be a bill which includes water management including drought planning and response.

The other is the farm bill. This and WRDA are popular bills with members of Congress. The farm bill could be a vehicle for the forest health/watershed management, which is so important to the water community. It might also be a vehicle to enhance industrial hemp production opportunities.

As for infrastructure, it is currently unknown whether a bill will move forward. But it is a proposal of about \$200 billion over 10 years across all government agencies, and so water managers should not see this as an answer to infrastructure challenges.

Another issue on the table is the proposed reorganization of the Department of the Interior. While moving some agency headquarters to the West might be desirable, the overall plan is expensive, and has not fallen with favor on appropriators, who believe that other policy areas have a need for funding that is higher priority than a reorganization.

In recent weeks, the District's engineering staff has met with Reclamation on how the contracts will be administered. The amount of water stored by each participant and releases will continue to be administered by Reclamation, and monitored by the District. The District is primarily responsible for making sure the "colors" of water match the descriptions, which were used in developing the Environmental Impact Statement for the Master Contract.

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PUEBLO DAM HYDROELECTRIC PROJECT UPDATE

Kevin Meador reported construction of the Pueblo Dam Hydroelectric project continues on schedule for a mid-2018 start-up. Mr. Meador provided the Board a copy of the Project Status Report showing the major tasks timeline along with a PowerPoint reviewing the following:

- Pictures of the Construction Project

ACTION ITEMS:

APPROVAL OF TRANSFER OF PROJECT WATER FROM PONCHA SPRINGS TO UPPER ARKANSAS WATER ACTIVITY ENTERPRISE FOR AUGMENTATION PURPOSES

Lee Miller reported Poncha Springs has applied to have the Upper Arkansas Water Activity Enterprise augment a new well. Poncha Springs proposes to provide the Upper Arkansas Water Activity Enterprise with Project water for this purpose, as opposed to purchasing water from the Upper Arkansas Water Activity Enterprise. The Board was provided a copy of the Upper Arkansas Water Activity Enterprise Augmentation Application.

Mr. Clayton moved, seconded by Mr. Hamel, the Board approve the transfer of Project water from Poncha Springs to Upper Arkansas Water Activity Enterprise for augmentation purposes. Motion unanimously carried.

HYDROELECTRIC PROJECT FINANCING

Leann Noga reported on November 30, 2017 the Executive Committee held a meeting at the District office. In the meeting, staff proposed that the Enterprise increase the Colorado Water Conservation Board (CWCB) loan by a total of \$1,400,000.

The CWCB base loan amount is \$17,220,000 with a one percent loan origination fee of \$172,200 for a total loan amount of \$17,392,200. The loan contract was executed on August 1, 2017. The original loan approval and negotiation of the fixed price for the project was in 2016, delays in negotiating the Power Purchase Agreements caused an overall delay in the project of almost one-year. The one-year delay has resulted in construction materials and labor cost increases of approximately \$800,000.

The request for the loan increase was \$1,400,000, this is \$600,000 over the estimated project cost increase and was requested to:

1. Provide for material and labor cost increases beyond the control of the Design-Builder since the original fixed price was negotiated. A summary of the cost increases are as follows:
 - a. Materials cost increases (rebar, steel, concrete, metal building, copper conduit) - \$430,300
 - b. Labor (Design-Builder and sub-contractors) - \$369,700
2. Provide a contingency of approximately \$200,000 for any unanticipated project changes between now and the end of construction.

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3. Provide \$400,000 to transfer funds from CWCB loan disbursement to draw down the Hydro Enterprise debt. This transfer of funds would satisfy the CWCB loan requirements of 90 percent CWCB loan funds and 10 percent Enterprise loan funds for the project. This transfer would increase the CWCB loan payment amount and decrease the amount of the repayment to the Enterprise.

After discussion in the November 30, 2017 Executive Committee meeting, the Committee determined that the 10 percent local payment in the CWCB contract could be exceeded, which would allow the Enterprise to pay a larger share.

The Committee suggested the loan should be restricted to the original \$17.2 million and the Enterprise Fund should pay for increased Hydro costs. The Enterprise would continue to financially support the Hydroelectric project and increase the "loan" between the Enterprise and the Hydroelectric project, then to the extent that Hydro can pay that back with interest it would. This could provide less risk and more flexibility to the Enterprise. The Committee also determined that the Enterprise would hold one payment in reserve in the amount of the annual loan for the Hydro fund. This is a CWCB loan requirement of 1/10 of a payment for 10 years.

At the completion of the agenda item it was determined that two possible options would go to the Board of Directors. Then the Board would be able to compare options, and decide to increase in the CWCB loan amount or self-fund the additional project costs through the Enterprise fund balance.

Option #1: Increase CWCB Loan \$1,400,000

Increase the CWCB loan in the amount of \$1,400,000, this increase would cover the costs of change orders, decrease the Hydro debt to the Enterprise and create a project contingency of \$544,011. This would change the annual payment of the CWCB loan from the amount of \$776,500 to \$815,405. Staff engineered this option to maintain the 90 percent CWCB loan funds and 10 percent Enterprise loan funds for the project.

Option #2: Enterprise Support all expenditures of the Hydro Project over the amount of the CWCB original loan approval.

Using Enterprise fund balance in the amount of approximately \$455,989, this includes \$53,180 in known change order expenses and \$402,809 for other expenditures such as personnel and sub-contracted vendors. This option would consist of a business conducted as normal with the Hydro debt to the Enterprise increasing with each expenditure.

The annual debt payable to the Enterprise by Hydro would increase from \$90,764 to \$130,283. The Board has authorization in the future to delay any Hydro debt payments to the Enterprise if funds are not available.

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The Enterprise would hold one payment reserve in the amount of \$776,560 for the Hydro project, as required by the CWCB loan. The Enterprise fund balance has sufficient funds to accommodate option #2.

Mr. Goodwin moved, seconded by Mr. Hamel, the Board approve Option number 2, which is the Enterprise support all expenditures of the Hydro project over the amount of the CWCB original loan approval. Using Enterprise fund balance in the amount of approximately \$455,989, this includes \$53,180 in known change order expenses and \$402,809 for other expenditures such as personnel and sub-contracted vendors. This option would consist of a business conducted as normal with the Hydro debt to the Enterprise increasing with each expenditure. The annual debt payable to the Enterprise by Hydro would increase from \$90,764 to \$130,283. The Board has authorization in the future to delay any Hydro debt payments to the Enterprise if funds are not available. The Enterprise would hold one payment in reserve in the amount of \$776,560 for the Hydro project, as required by the CWCB loan. Motion unanimously carried.

INFORMATION ITEMS:

The Board was provided written material on the following topics, which were posted to the Board website:

- AVC and Excess Capacity Master Contract Update

OTHER BUSINESS MATTERS:

President Long asked if there were any other matters to come before the meeting, and hearing none, adjourned the meeting at 11:50 a.m.

Respectfully submitted,

Toni Gonzales
Administrative Manager

Secretary

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