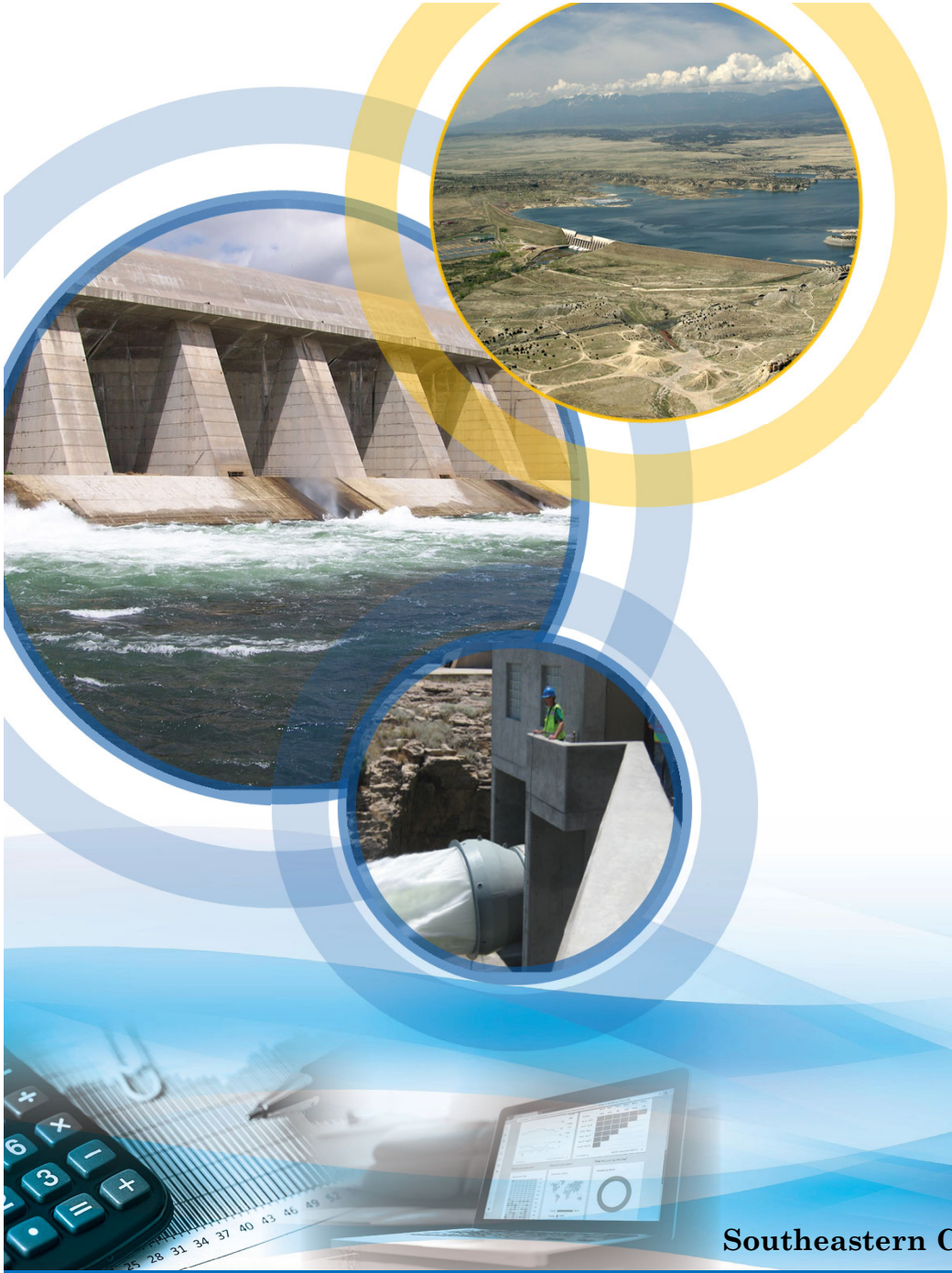


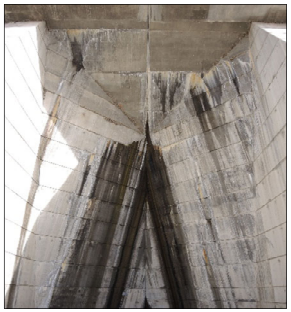
Southeastern Colorado Water Conservancy District

Financial Strategy and Sustainability Study Update

Southeastern Colorado Water Conservancy District

FINANCIAL TIMELINE OF FRY-ARK PROJECT




Selling frying pans

Federal appropriations

Federal support for **national benefits** of Project

Repayment of interest, OM&R, construction debt for **local benefits**

Water sales, Winter Water, storage & exchange contracts

Ad valorem taxes

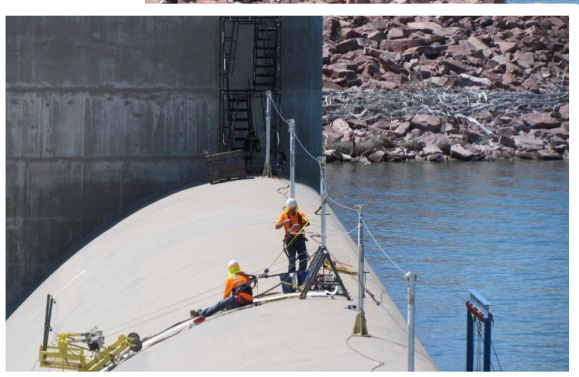
Enterprise (business activity)

Planning Era | Construction | Development | Efficiencies | OM&R, Betterment

1950 — 1962 — 1975 — 1982 — 2000 — We are here — 2025 — 2050

Protecting the Fry-Ark Project: What's being done now?

- **Extraordinary Maintenance and Replacements:** Assessments are done on multi-year schedules. District shares a percentage of costs.
- **Asset Valuation:** Estimated value for each element of Fry-Ark Project. This will help the District understand the scope of what is needed.
- **Condition Assessment:** This will help the District understand which costs are likely to occur, and when, in future years.
- **Reserve Account:** Financial mechanism to pay District's share.



Pueblo Dam Expansion
Joint upgrades: $32 million

District share: $19 million

Protecting the Fry-Ark Project: What's needed in the future?

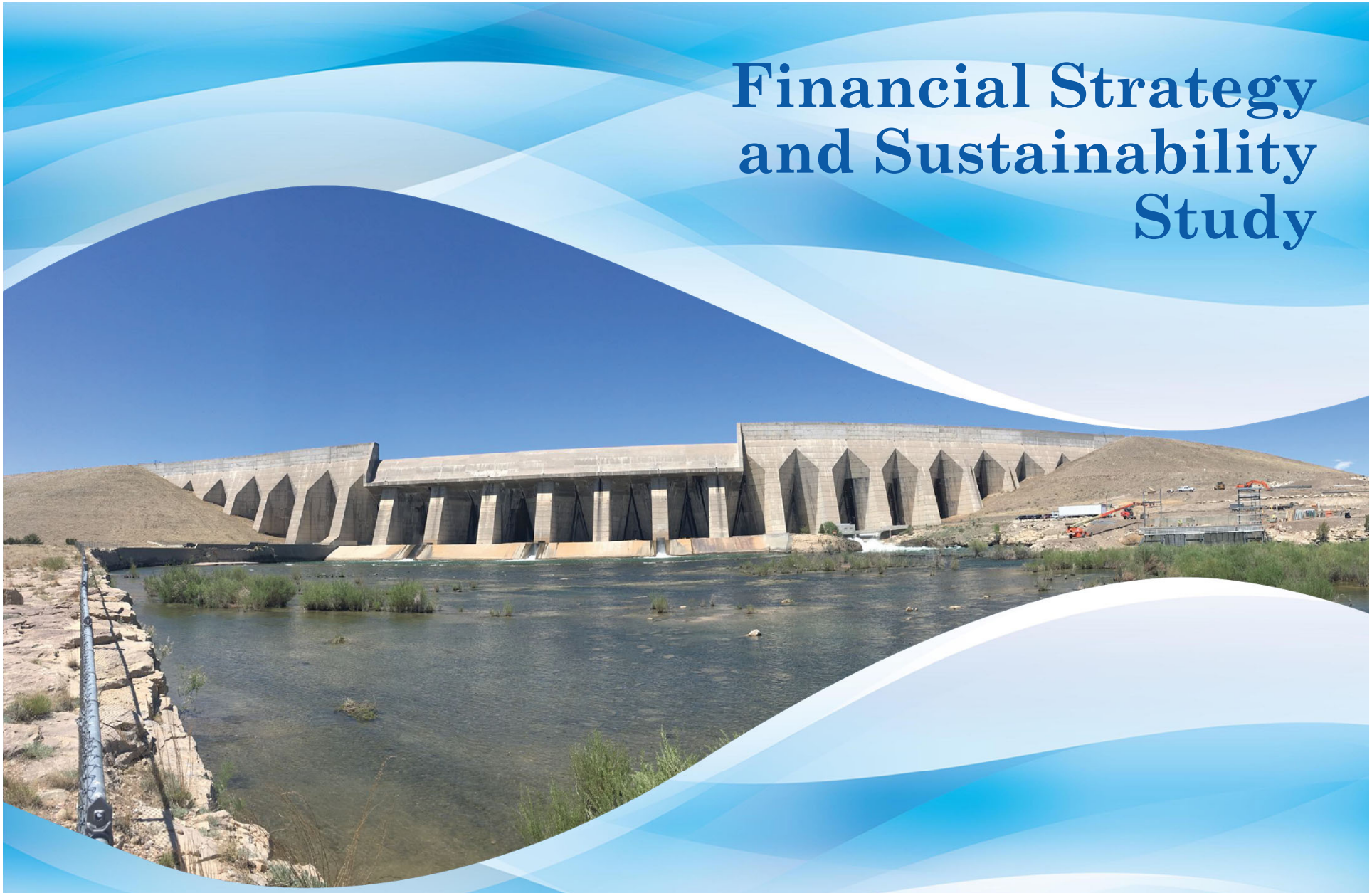
- **Recovery of Storage:** The Project has lost 20,000 acre-feet of storage in the first 45 years of storage in Pueblo Reservoir.
- **Expansion of Storage:** More storage is needed.
- **Colorado River Call:** Fry-Ark water right is most junior on the Colorado River.
- **Interconnect:** Connection of the North and South Outlets at Pueblo Dam.
- **Safety of Dams:** Future extraordinary expenses for dam improvements.
- **Restoration of Yield:** Storage Project which has not been constructed yet that will provide lower District storage and exchange potential.
- **Catastrophic Risks**: Failure of major structures.
- **Exposure:** Liability for Project-related lawsuits.

Rate History

- **Project Water Rate have been $7.00 per AF since 1998**
- **Return Flow Rate have been $6.00 per AF since 2000**

20 years with no Rate Increase

Financial Strategy and Sustainability Study



Project Team

- **Southeastern Staff**
  - Jim Broderick
  - Leann Noga
  - Chris Woodka
  - Garrett Markus
- **Advisors**
  - Seth Clayton, Pueblo Water
  - Curtis Mitchell, City of Fountain
  - Terry Scanga, Upper Arkansas Water Conservancy District
  - Kent Ricken, CO Water Protective Agency (CWPDA)
- **JACOBS**
- **Southeastern Board of Directors**

Financial Strategy and Sustainability Study

- **Communication**
- **Workshop 1:**
  - Financial Plan
  - Revenue Requirement Analysis
  - Capital Improvement and Projects Plan
- **Workshop 2:**
  - Reserve Recommendations
- **Workshop 3:**
  - Cost of Service Analysis & Model
- **Workshop 4:**
  - Rate Design Analysis & Model
- **Policies Recommendations**
- **Final Report**

JACOBS provided financial recommendations at each workshop, but no Board action has occurred.

Financial Strategy and Sustainability Study

- Items NOT in the Finance Study
  - Contract Ad Valorem Tax Revenues
  - TABOR
  - Ability to Bond Projects
  - Surcharges

The Board will be discussing these items, but they are not a part of this study.

Communication

Information Handouts

SOUTHEASTERN COLORADO WATER CONSERVANCY DISTRICT

Financial Strategy and Sustainability Study

HISTORY

The Southeastern Colorado Water Conservancy District (District) was formed in 1958 to improve the water resources of the Arkansas River, and specifically to develop the Fryingpan-Arkansas Project (Project). When the Project was authorized by Congress in 1962, the District already had begun the task of funding the legal, engineering and clerical support the Project required. Much of the District's activity in the past 60 years has been focused on paying off the debt for construction of the Project, as well as paying for its share of the operation and maintenance of the Project.

NEW STUDY

In 2019, the District has launched a Financial Strategy and Sustainability Study to develop financial planning tools to cope with an aging Project, as well as dynamic changes that are expected to occur in the coming years.

PURPOSE

The District will receive financial planning tools that will allow its Board to make solid planning decisions in the future. This will help meet the Project's infrastructure needs, as well as give the District the means to address future challenges.

IMPACTS

The District will not change its ad valorem tax rate as a result of this study. The property tax is tied to the federal contract for the repayment and operation of the Project.

Other than taxes, the District primarily relies on water sales and storage revenues. The Project water sales rate has not been raised since 1998, and the District has pulled from its reserves or impose fees to meet shortfalls in revenue that should be covered by sales. The price of Project water is just a fraction of comparable water that can be purchased for supplemental use in this area. Project water storage fees are assessed as surcharges.

STUDY COMPONENTS

The District will have new financial tools to work with as a result of the JACOBS study. These will be approached in the most efficient way that has the least impact on customers.

Financial Plan: Guidelines for future budgets, anticipated revenues, expenditures and reserves.

Analysis of Policies: Determination of Board actions needed to implement the financial plan.

Capital Improvement and Capital Project Plan: Development of a schedule for District and Project needs up to 20 years in the future.

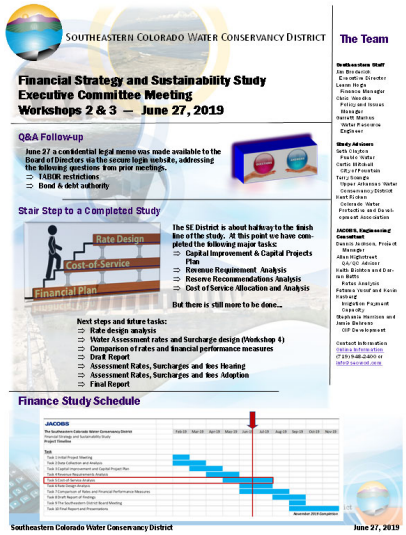
Revenue Requirement Analysis: Evaluation of revenue needs for the Project, District and Enterprise.

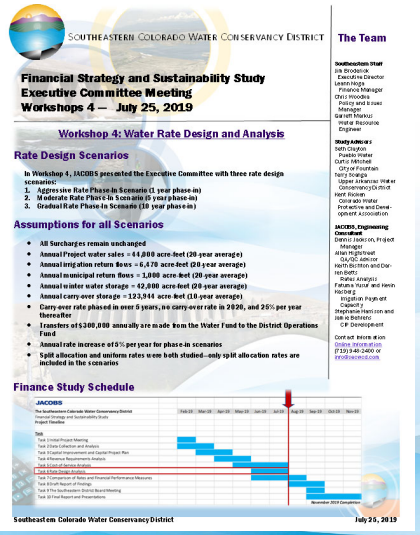
Cost of Service Analysis: Alignment of revenue sources with capital and operational expenses.

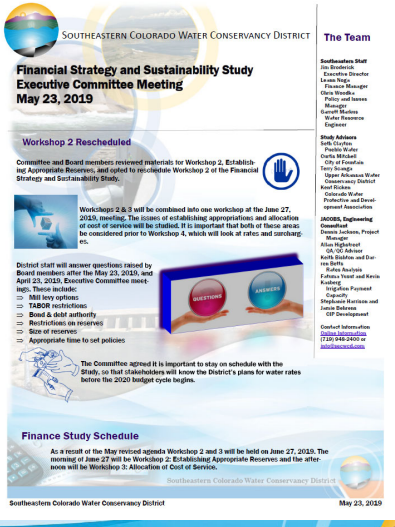
Rate Design Analysis: Matching rates with revenue needs.

More information at secwcd.org/content/finance-strategy-and-sustainability-study

March 1, 2019







Southeastern Colorado Water Conservancy District

Information Updates – SECWCD.org

Southeastern Colorado Water Conservancy District

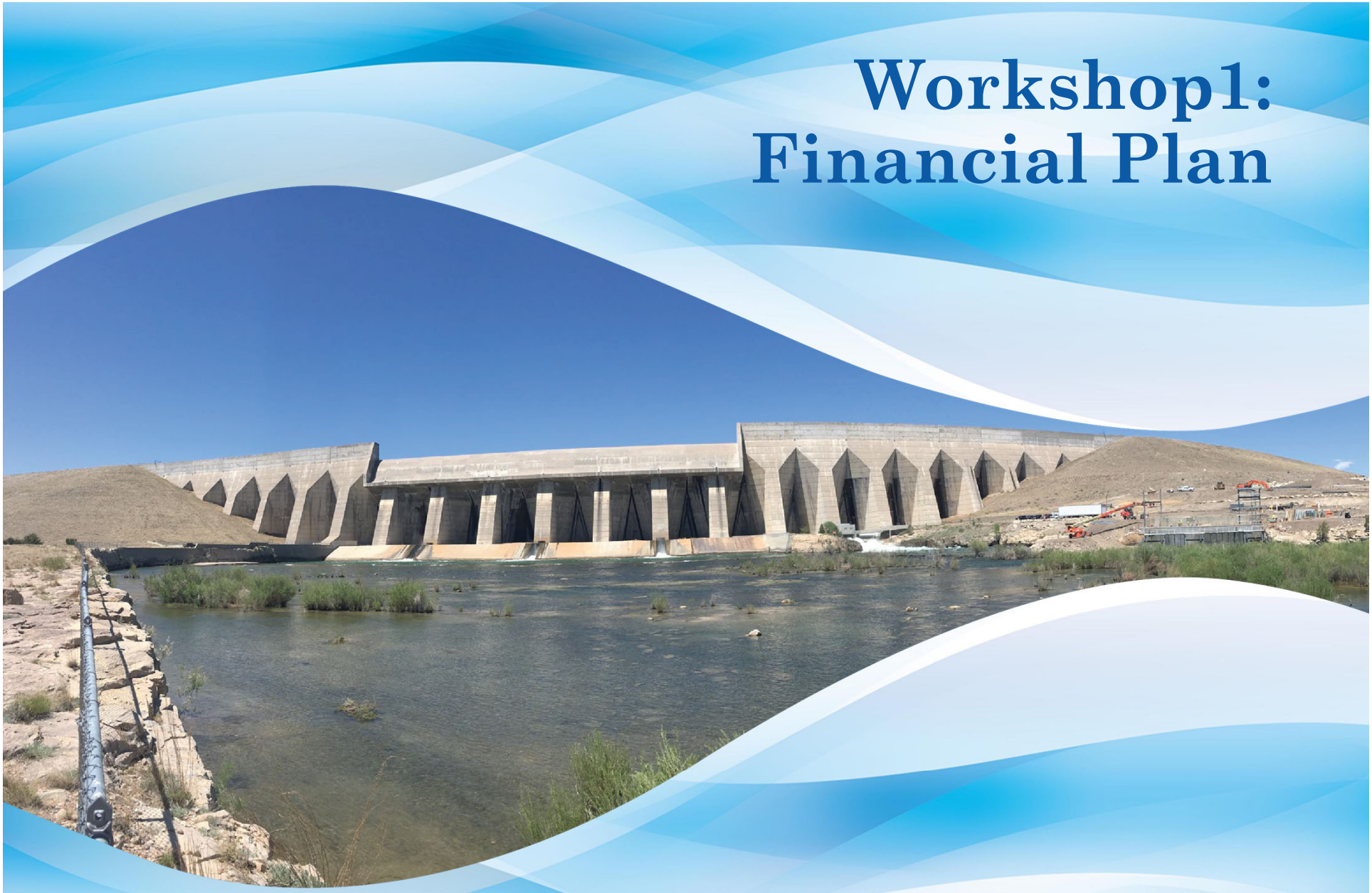
Financial Strategy and Sustainability Study

- ✓ March 2019
- ✓ August & September 2019

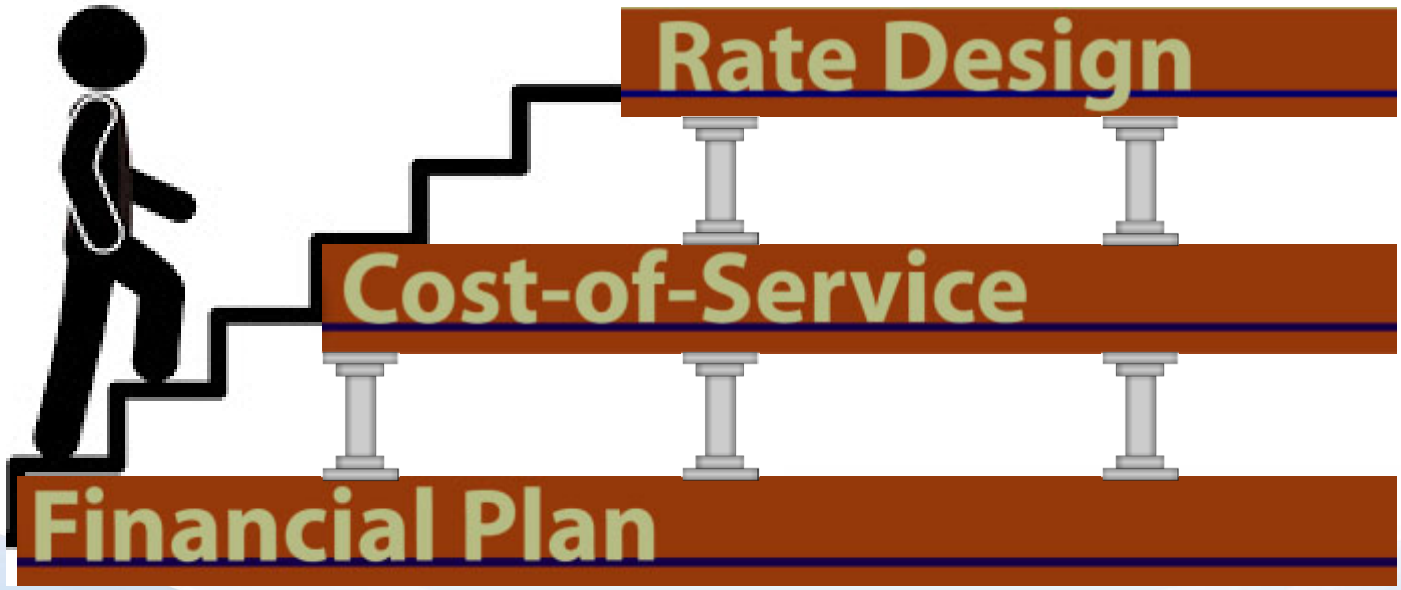
Outreach Meetings:

- ➢ Fountain Valley Authority
- ➢ Lower Arkansas Valley Area
- ➢ Upper District Area
- ➢ Northern District Area (El Paso County)
- ➢ Central District Area

Workshop1: Financial Plan



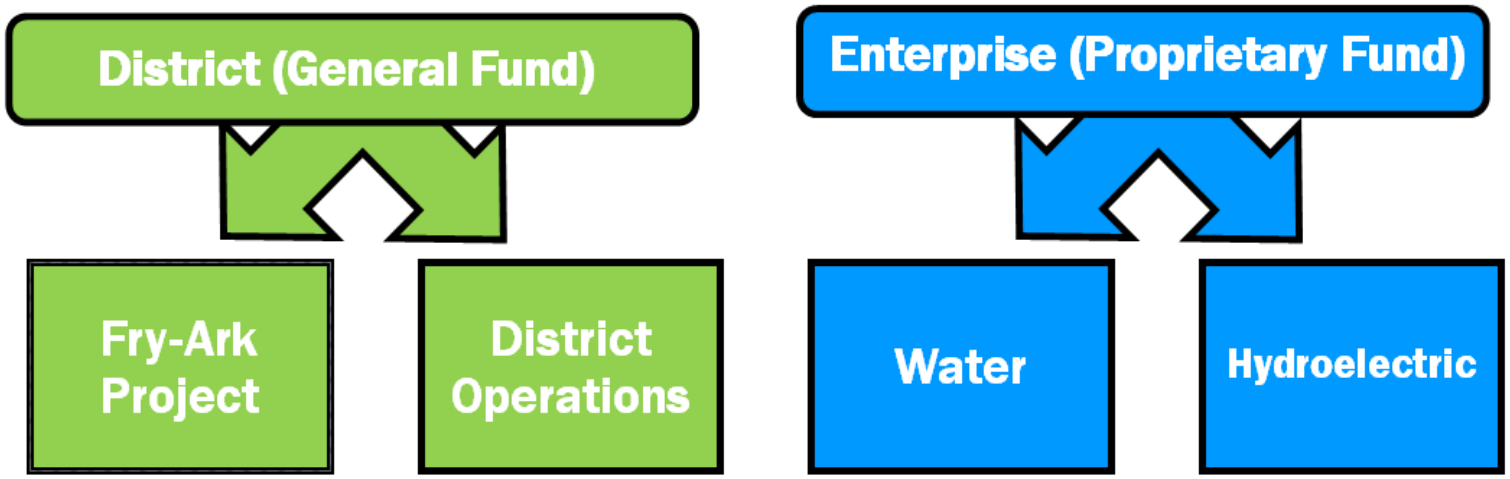
Financial Plan



Workshop 1: Financial Plan Summary

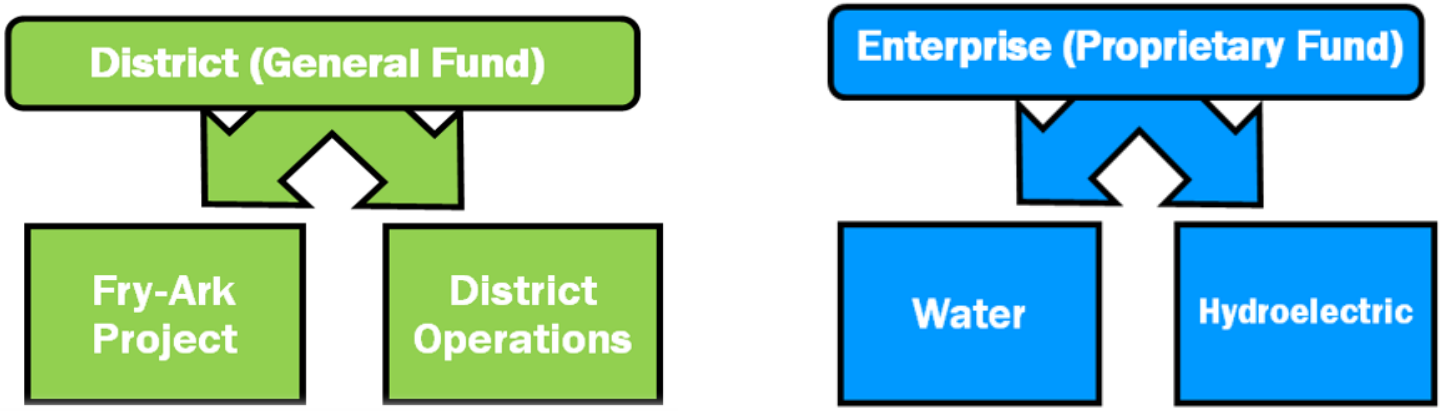
- **Understanding of the District and Enterprise funds**
- **10-year Financial Plan (Base Case)**
- **20-year Capital Improvement and Capital Projects Plan**
  - 1st 10 year is used in the Base Case
- **Establishing the Base Case Revenue Requirement for the District and the Enterprise**

Workshop 1: Financial Plan Summary



Workshop 1: Financial Plan - Summary

Revenue Requirement (annual deficit)



Increase or decrease Reserve funds

($600,000)

($1 million)

Break-even

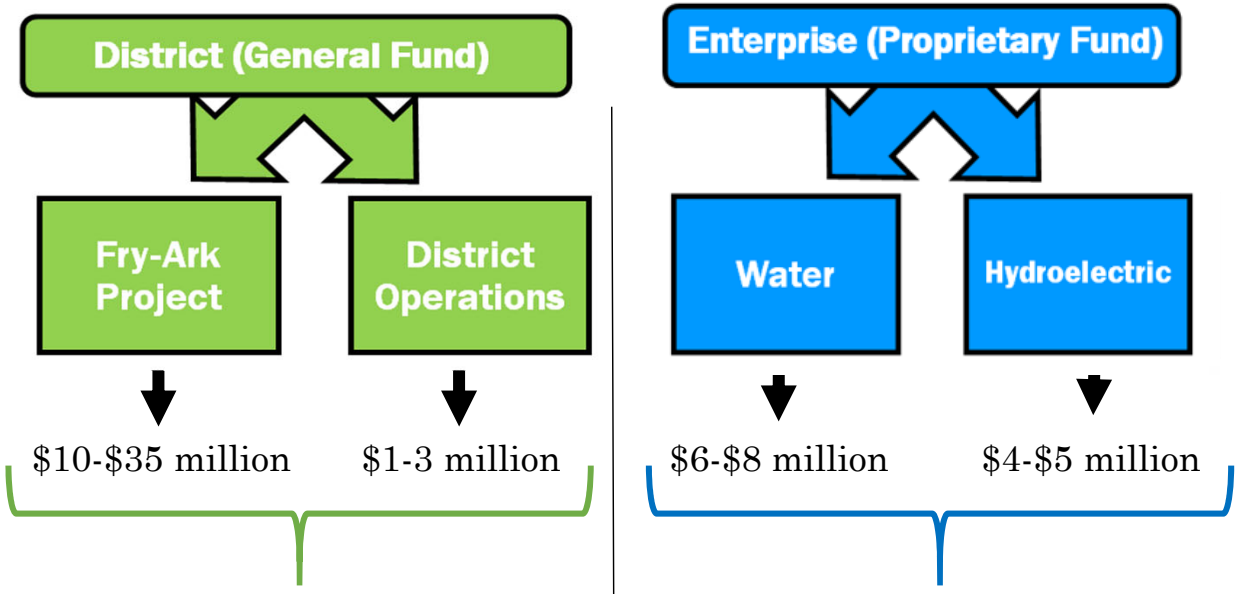
- **Base Case projections forecast the next 10 years.**
- **The Base Case calculated a Revenue Requirement of $1.6 million annually.**

Workshop 2: Reserves

Workshop 2: Reserves - Summary

- **Finance Study Recommended Reserve Categories**
  - **Cash Reserve**
  - **Operating Reserve**
  - **Contingency or Exposure Reserve**
  - **Capital Reserve**

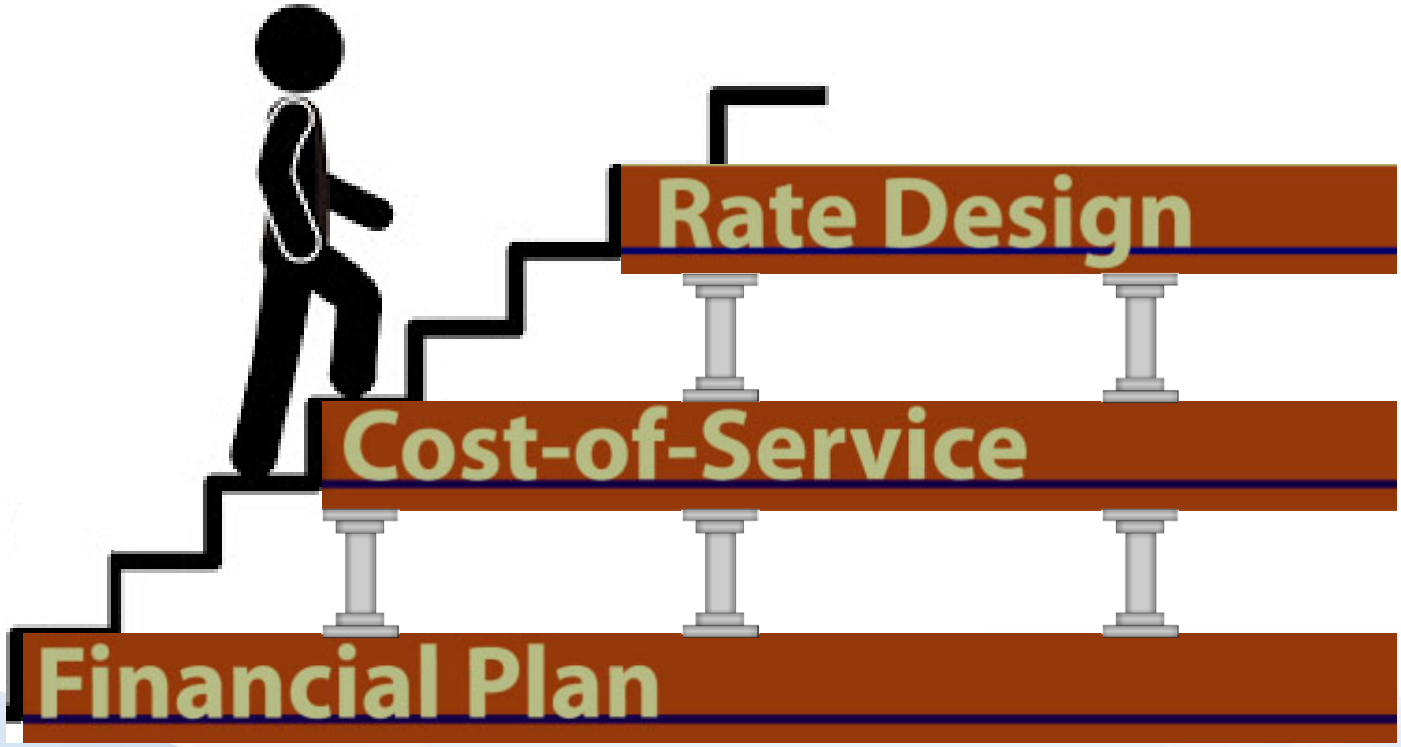
Workshop 2: Reserves - Summary



"Each category should reflect the District's unique circumstances, legal structure, financing capabilities, and risk of operations."

Workshop 3: Cost of Service Analysis

Cost of Service



Workshop 3: Cost of Service Goal

SE District Goals of Cost of Service

1. Meet the revenue requirement
2. Apportion production costs among customers fairly and equitably
3. Achieve optimal efficiency

Workshop 3: Cost of Service Assumptions

- **Analyzes Project Water, Return Flows, and Storage**
- **Future test year of 2020 recommended**
- **Customer Classes:**
  - Municipal and Industrial
  - Irrigation
- **Split Cost Method recommended**
- **20-year average (1999-2018) of Project water allocation of 42,058 acre-feet (AF)**
  - 22,960 af or 54.59% for M&I
  - 19,098 af or 45.41% for irrigation
- **Best Practices: AWWA and USBR cost-of-service methodology**

Workshop 3: Cost of Service Summary

- **Project Water**
- **Return Flows**
- **Winter Water Storage (Irrigation)**
- **If-and-When Storage (Excess Capacity)**
- **Municipal Carry-Over Project Water (M&I)**

- ***Surcharges were not studied and remain the same***

Workshop 3: Cost of Service Summary

Project Water

Cost of Service Matrix - 2020 Test Year		
Allocation Method	**Customer Class**	**$/AFU**
Uniform	M&I	$ 14.29
	Irrigation	$ 14.29
Split	M&I	$ 15.25
	Irrigation	$ 13.14

Workshop 3: Cost of Service Summary

Return Flows

M&I	$18.78
Irrigation	$16.18

Winter Water

Irrigation	$5.72

Workshop 3: Cost of Service Summary

Municipal Carryover of Project Water

Description	Losses (AF or %)	Opportunity Cost ($/AF)
M&I Project Water Cost per Acre Foot ($15.25)		
Annual Evaporation Losses	10%	$ 1.53
10% Transit Loss (on evaporation)	10%	$ 0.17
Foregone Return Flow Sales*	40%	$ 10.17
Total Opportunity Cost of Carryover Water		**$ 11.86**

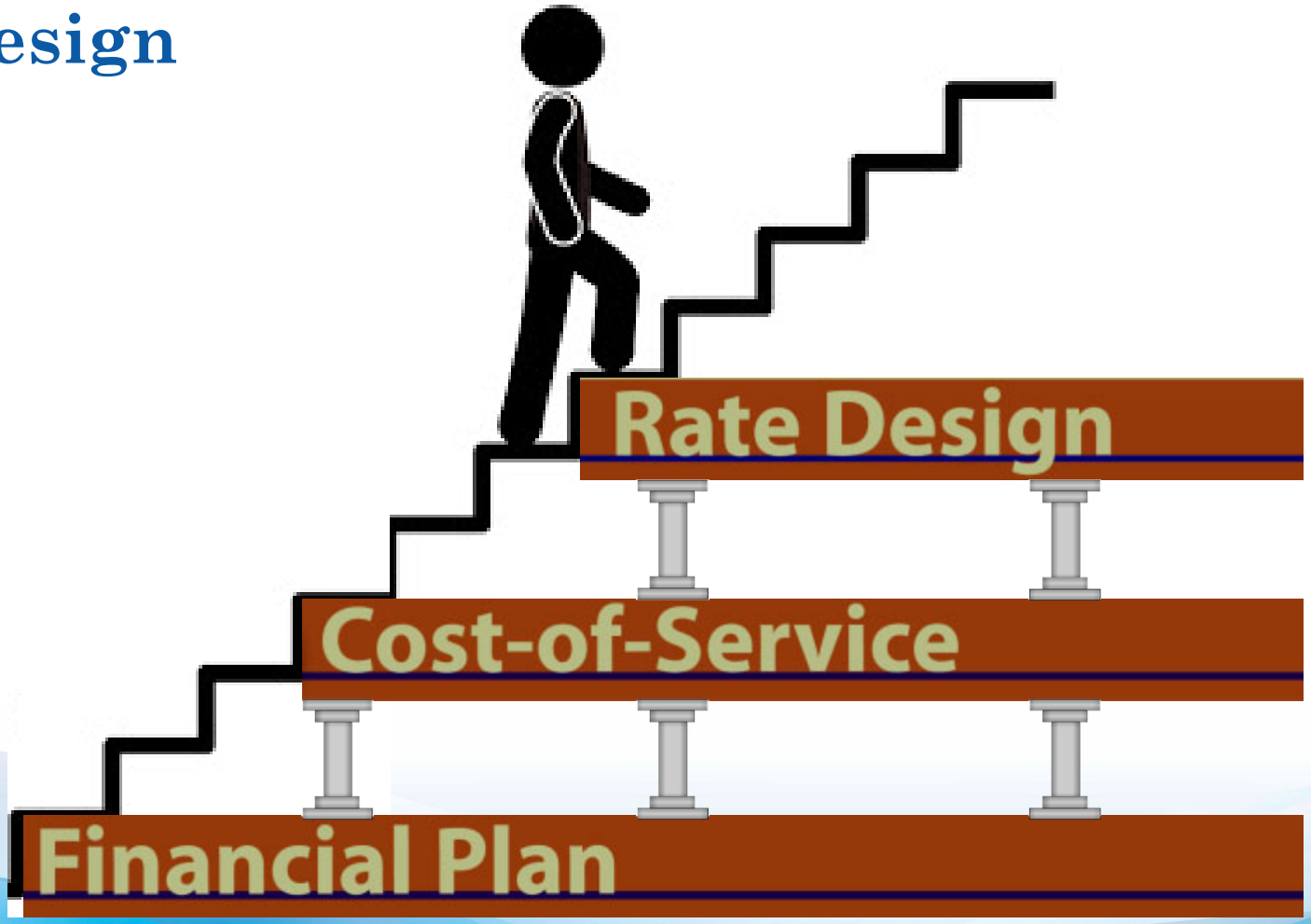
* Foregone return flow sales is 40% of the M&I Project Water cost per acre foot ($/AF).

Workshop 3: Cost of Service Summary

- **If & When Storage (Excess Capacity Storage)**
  - Study suggested no change in rate
  - Because…
    - Storage is not guaranteed
    - Water in non-Project water
    - Cost of Service is reflected in the current surcharges

Workshop 4: Rate Design Analysis

Rate Design



Workshop 4: Rate Design Summary

- **Scenarios**
  - **Aggressive Rate Phase-in (1 year phase-in)**
  - **Moderate Rate Phase-in (5 year phase-in)**
  - **Gradual Rate Phase-in (10 year phase-in)**

  - Based on:
    - 10-year Financial Plan
    - Cost of Service

- **3 Years revised Cost of service**

Workshop 4: Rate Design Summary

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Water Rate Description	**Current**	**Aggressive Split Rate Increase ($/AF)**									
Project Water											
Irrigation	$ 7.00	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14
Municipal	$ 7.00	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25
Project Water Sales used for Well Augmentation											
Irrigation used for Well Augmentation	$ 7.00	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14	$ 13.14
Municipal used for Well Augmentation	$ 7.00	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25	$ 15.25
Storage Charges											
Winter Water Storage*	$ 2.80	$ 5.72	$ 5.72	$ 5.72	$ 5.72	$ 5.72	$ 5.72	$ 5.72	$ 5.72	$ 5.72	$ 5.72
Carry-Over Project Water	$ -	$ -	$ 2.97	$ 5.93	$ 8.90	$ 11.86	$ 11.86	$ 11.86	$ 11.86	$ 11.86	$ 11.86
If-and-When Storage											
In District	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Out of District	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Aurora	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Project Water Return Flows											
Irrigation Return Flows	$ 6.00	$ 16.18	$ 16.18	$ 16.18	$ 16.18	$ 16.18	$ 16.18	$ 16.18	$ 16.18	$ 16.18	$ 16.18
Municipal Return Flows	$ 6.00	$ 18.78	$ 18.78	$ 18.78	$ 18.78	$ 18.78	$ 18.78	$ 18.78	$ 18.78	$ 18.78	$ 18.78

* $2.80 charged by the Bureau and transferred to the Bureau

Revenue Requirement
$1.6 million

Additional Revenue to Enterprise
2020 Year: $507,966
2021 Year: $814,396
2022 Year: $1,119,794

Carry-over Project Water Phased in over 5 years in all scenarios

Workshop 4: Rate Design Summary

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Water Rate Description	**Current**	**Moderate Split Rate Increase ($/AF)**									
Project Water											
Irrigation	$ 7.00	$ 8.64	$ 10.37	$ 12.17	$ 14.08	$ 16.06	$ 16.06	$ 16.06	$ 16.06	$ 16.06	$ 16.06
Municipal	$ 7.00	$ 9.08	$ 11.27	$ 13.57	$ 15.98	$ 18.51	$ 18.51	$ 18.51	$ 18.51	$ 18.51	$ 18.51
Project Water Sales used for Well Augmentation											
Irrigation used for Well Augmentation	$ 7.00	$ 8.64	$ 10.37	$ 12.17	$ 14.08	$ 16.06	$ 16.06	$ 16.06	$ 16.06	$ 16.06	$ 16.06
Municipal used for Well Augmentation	$ 7.00	$ 9.08	$ 11.27	$ 13.57	$ 15.98	$ 18.51	$ 18.51	$ 18.51	$ 18.51	$ 18.51	$ 18.51
Storage Charges											
Winter Water Storage*	$ 2.80	$ 3.41	$ 4.05	$ 4.72	$ 5.43	$ 6.19	$ 6.19	$ 6.19	$ 6.19	$ 6.19	$ 6.19
Carry-Over Project Water	$ -	$ -	$ 1.28	$ 3.92	$ 8.05	$ 13.77	$ 13.77	$ 13.77	$ 13.77	$ 13.77	$ 13.77
If-and-When Storage											
In District	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Out of District	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Aurora	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Project Water Return Flows											
Irrigation Return Flows	$ 6.00	$ 8.44	$ 11.01	$ 13.70	$ 16.53	$ 19.47	$ 19.47	$ 19.47	$ 19.47	$ 19.47	$ 19.47
Municipal Return Flows	$ 6.00	$ 8.99	$ 12.13	$ 15.42	$ 18.88	$ 22.49	$ 22.49	$ 22.49	$ 22.49	$ 22.49	$ 22.49

* $2.80 charged by the Bureau and transferred to the Bureau

Revenue Requirement
$1.6 million

Additional Revenue to Enterprise
2020 Year: $123,474
2021 Year: $385,508
2022 Year: $793,908

Carry-over Project Water Phased in over 5 years in all scenarios

Workshop 4: Rate Design Summary

Year	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Water Rate Description	**Current**	**Gradual Split Rate Increase ($/AF)**									
Project Water											
Irrigation	$ 7.00	$ 7.99	$ 9.03	$ 10.12	$ 11.27	$ 12.47	$ 13.74	$ 15.06	$ 16.46	$ 17.92	$ 19.50
Municipal	$ 7.00	$ 8.22	$ 9.50	$ 10.85	$ 12.26	$ 13.75	$ 15.31	$ 16.95	$ 18.66	$ 20.47	$ 22.31
Project Water Sales used for Well Augmentation											
Irrigation used for Well Augmentation	$ 7.00	$ 7.99	$ 9.03	$ 10.12	$ 11.27	$ 12.47	$ 13.74	$ 15.06	$ 16.46	$ 17.92	$ 19.50
Municipal used for Well Augmentation	$ 7.00	$ 8.22	$ 9.50	$ 10.85	$ 12.26	$ 13.75	$ 15.31	$ 16.95	$ 18.66	$ 20.47	$ 22.31
Storage Charges											
Winter Water Storage*	$ 2.80	$ 3.11	$ 3.43	$ 3.76	$ 4.11	$ 4.49	$ 4.87	$ 5.28	$ 5.71	$ 6.16	$ 6.65
Carry-Over Project Water	$ -	$ -	$ 0.64	$ 1.97	$ 4.03	$ 6.90	$ 8.49	$ 10.16	$ 11.93	$ 13.78	$ 15.67
If-and-When Storage											
In District	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Out of District	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Aurora	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Project Water Return Flows											
Irrigation Return Flows	$ 6.00	$ 7.37	$ 8.81	$ 10.32	$ 11.91	$ 13.58	$ 15.33	$ 17.16	$ 19.09	$ 21.12	$ 23.22
Municipal Return Flows	$ 6.00	$ 7.64	$ 9.37	$ 11.18	$ 13.09	$ 15.08	$ 17.18	$ 19.39	$ 21.70	$ 24.13	$ 26.66

* $2.80 charged by the Bureau and transferred to the Bureau

Revenue Requirement
$1.6 million

Additional Revenue to Enterprise
2020 Year: $70,442
2021 Year: $210,211
2022 Year: $424,686

Carry-over Project Water Phased in over 5 years in all scenarios

Workshop 4: Rate Design Recommendation

Aggressive Scenario Benefits:

- Lowest rate ($/AF)
- Carryover rate is phased-in over 5 years
- Smallest increase in revenue
- Minimizes near-term risks
- Simplicity

Description	Rates and Surcharges					
	Water Rate	Safety of Dams	Water Activity	Environmental Stewardship	Augmentation	Total Charge
Project Water						
Irrigation	$ 13.14	$ 0.50	$ 0.75	$ 0.75	$ -	$ 15.14
Municipal	$ 15.25	$ 0.50	$ 1.50	$ 0.75	$ -	$ 18.00
Project Water Sales used for Well Augmentation						
Irrigation used for Well Augmentation	$ 13.14	$ 0.50	$ 0.75	$ 0.75	$ 2.60	$ 17.74
Municipal used for Well Augmentation	$ 15.25	$ 0.50	$ 1.50	$ 0.75	$ 2.60	$ 20.60
Storage Charges						
Winter Water Storage	$ 5.72	$ 0.25	$ -	$ 0.75	$ -	$ 6.72
Carry-Over Project Water	$ 5.93	$ 1.00	$ 1.25	$ 0.75	$ -	$ 8.93
If & When Storage						
In District	$ -	$ 0.50	$ 0.50	$ 0.75	$ -	$ 1.75
Out of District	$ -	$ 2.00	$ 4.00	$ 0.75	$ -	$ 6.75
Project Water Return Flows						
Irrigation Return Flows	$ 16.18	$ 0.50	$ -	$ 0.75	$ -	$ 17.43
Municipal Return Flows	$ 18.78	$ 0.50	$ -	$ 0.75	$ -	$ 20.03

*$2.80 charged by the Bureau and transferred to the Bureau

Aggressive Scenario rates at year 3

Study Schedule

JACOBS

The Southeastern Colorado Water Conservancy District	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19
Financial Strategy and Sustainability Study										
Draft Project Timeline										
Task										
Task 1 Initial Project Meeting										
Task 2 Data Collection and Analysis										
Task 3 Capital Improvement and Capital Project Plan										
Task 4 Revenue Requirements Analysis										
Task 5 Cost-of-Service Analysis										
Task 6 Rate Design Analysis										
Task 7 Comparison of Rates and Financial Performance Measures										
Task 8 Draft Report of Findings										
Task 9 The Southeastern District Board Meeting										
Task 10 Final Report and Presentations										

November 2019 Completion

Financial Strategy and Sustainability Study Communication

Outreach Meetings:

- Central District Area
  August 27
- Lower Arkansas Valley Area
  August 29
- Fountain Valley Authority
  September 9
- Northern District Area (El Paso)
  September 11
- Upper District Area
  September 12

FINANCIAL ACTION PLAN TIMELINE

August

Review:
Water Rate & Surcharge History
Framing the Future
Financial Strategy and Sustainability Study

September

Discuss DRAFT Policies and Guidelines
DRAFT Financial Report from JACOBS
TABOR Discussion
2020 Budget Officer, Budget Notice

October

Policies and Guidelines Approval
Water Rate Hearing
2020 Proposed Budget

November

Water Rate Approval
2020 Budget Hearing

December

Water Rate Resolution
Budget Resolution
2020 Budget Approval
FINAL Financial Strategy and Sustainability Study

As of this presentation, the SE Board of Directors have not taken Action on any element of the Finance Strategy and Sustainability Study

Southeastern Colorado Water Conservancy District