

CAPITAL INVESTMENT FEE/WATER RESOURCE FEE

Basis and Purpose

April 14, 2006

INTRODUCTION

In accordance with its powers under Sections 32-1-1001(1)(j) and 32-1-1006(1)(g), C.R.S., the District finds the necessity of establishing an interim Water Resources Fee (WRF) component of its Capital Investment Fees (CIF) to provide funds for developing or increasing water resources and facilities necessary for supplying water for increased water demand that will be created by economic development and population increase in and around its service area. The District's finding is based on extensive studies of existing water supplies, growth in future demand and methods of increasing water supplies. Prior to June of 2004, the Board recognized the need to obtain additional water rights to enable the District to serve growth in water demand created by economic development and population increase. On June 22, 2004, the Board passed a water rights dedication resolution requiring all new development that created an increase in water demand to either dedicate water rights sufficient to supply 120% of such water demand or pay a cash-in-lieu of water rights dedication. On November 8, 2005, the Board passed a Resolution that repealed and reinstated its policy of requiring developments or expansion of water use that create water demands to provide the means to serve such demands by replacing its cash-in-lieu policy with a Water Resources Fee, and allowing water rights dedications-in-lieu-of cash if the dedications were suitable for meeting the increased water demand. The revised policy required payment of the Water Resources Fee at the time that property is subdivided or an increase in water demand of a property is proposed, or when the District becomes aware of such water demand increases. Prior to adoption of this Resolution, the Board discussed the policy at numerous public meetings. Subsequent to passing the Resolution, the Board has continued to research and discuss the appropriate amount of the WRF and other particulars concerning its implementation. The interim nature of the WRF is due to the pending completion of a financial study being conducted by the District to better determine the capital costs of infrastructure.

BASIS AND PURPOSE

This analysis was prepared to chronicle the development of the Water Resources Fee policy and the Board's deliberations concerning (1) the amount, (2) applicability to types of property, and (3) the appropriate time for collecting the fee. As a result of those deliberations, the Board has determined to incorporate the WRF into the District's existing Capital Investment Fee in an effort to simplify the District's overall fee structure. The term, WRF, will no longer be used except to distinguish a component of the CIF.

CIF AMOUNT

The interim CIF total will include all capital funding required to construct the facilities necessary to meet the 2040 water demand as described in the *Appraisal Report to Evaluate Future Raw Water Demands and Water Supply Alternatives Plans as of March, 2003* Report. The facilities will include but not be limited to:

- treatment plant upgrades and expansions
- all or part of Dry Gulch Reservoir
- facilities to convey San Juan River water into the Dry Gulch Reservoir
- Snowball Pipeline improvements
- any other new raw water delivery and storage facilities
- water rights that are available and suitable for District use
- distribution trunklines not paid for by developers of specific projects
- water tanks
- upgrades to the water system necessary to meet existing requirements

The interim CIF is proposed to be the sum of the existing CIF (based on square footage and equivalent units per customer) and the WRF component (based on equivalent units per customer as determined by District policy). The interim WRF component has been initially derived from cost estimates as shown below:

| | | |
|---|---|----------------------|
| 35,000 AF Dry Gulch Dam and Reservoir w/ Land Cost | | \$75,830,000 |
| Pump Station and Pipeline to Snowball | | \$6,747,000 |
| Snowball Pipeline Replacement | | \$6,000,000 |
| Treatment Plant Capacity Expansion | | \$32,512,584 |
| | Subtotal | \$121,089,584 |
| Unlisted Items 20% of above | | \$24,217,917 |
| | Total Estimated Costs for 2040 Facilities | \$145,307,501 |
| Funds Collected by Proposed County/Town Impact Fees | | -\$6,389,206 |
| Total Costs to be Collected Through WRF Component of CIF | | \$138,918,295 |
| Estimated EU increase from 2005 to 2040 | | 21,900 |
| Interim Water Resource Fee per Equivalent Unit | | \$6,343 |

APPLICABILITY TO PROPERTY DEVELOPMENT

The CIF is proposed to be collected from all new customers or existing customers that change or enlarge their water use because all such customers will benefit from the facilities to be constructed with funds derived from the CIF. The benefits from these facilities will provide reliable water supplies to meet increasing basic service requirements, add reliability to current supplies and will contribute to the safety supply margin necessary for basic service demands.

COLLECTION OF THE CIF

The CIF will continue to be collected in accordance with the District's Rules and Regulations, as amended over time. It is important to note, however, that monies received will be distributed into the accounts specific to the components of the CIF. In other words, the portion relative to the development of raw water systems and supplies and expansion of treatment capacity necessary for growth will be allocated to the WRF fund, and the amount relative to upgrades to the treatment and distribution system will be disbursed into the CIF fund.

Pursuant to action taken by the Board of Directors at their regular meeting held April 11, 2006, a grace period suspending required payment of the WRF component will apply to District customers who submit connection forms (including payment of appropriate fees) not later than June 1, 2006, AND complete their connection to the District's main line not later than either November 15, 2006, or when Archuleta County terminates road cuts in late 2006, whichever is sooner. The District recognizes that some proposed developments may be in the beginning stages and that in certain situations only estimates of square footages and equivalent units may be available. In these instances, reasonable documentation, acceptable to the District, may be submitted as the basis for determining associated costs for eligibility during this grace period. For each equivalent unit proposed for service, a minimum of 1,000 square feet for residential units (if a building permit has not yet been issued documenting actual square footage) will be assumed when assessing the CIF component at the time the connection form is submitted. Upon receipt of a building permit, the balance of the CIF component will be assessed against actual square-footage less 1,000 square feet at the then current rate. In the case of commercial properties, the number of equivalent units proposed for service will be the basis for the CIF component at the time the connection form is submitted during the grace period. The Board shall have sole discretion concerning the applicability of the grace period to any customer and the method for calculating fees on any connection form submitted during the grace period.

ADOPTION

The Board's deliberations and implementation of the fees described herein at its regular meeting on April 11, 2006 followed deliberations and fact-finding over a period of several months, and took into consideration public participation and comment, including public testimony at the March 14, 2006 and April 11, 2006 Board meetings. A Resolution codifying the development and implementation of the fees, including the applicable grace period, and to summarize and confirm the Board's prior actions, will be considered by the Board at its May 9, 2006 regular meeting.

The District is currently undertaking an updated financial planning effort. Upon completion of this financial planning model, expected in mid-2006, the interim CIF total will be reconsidered, and thereafter, will be evaluated on an annual basis.