

Allison Bohling

From: Greg Dewey
Sent: Wednesday, May 18, 2016 12:40 PM
To: 'Larry Roos'
Cc: Steve Adams; Allison Bohling; Bill Cahill; 'Dan Herlihey'; 'Dave Kavanagh'; 'David Schneider'; 'Eugene Packer'; 'Gary Hausman'; 'Jennifer Gramling'; 'Larry Roos'; 'Randy Lee Williams'; Ward I - Troy Krenning
Subject: RE: Luc May Agenda Questions on Agenda Item 4- Long term water leasing

Hi Larry,

This email addresses your questions below. Thank you for the opportunity to answer these so the answers can inform the discussion at the meeting. I've copied all the LUC members on this email. Allison will provide hard copies of this email at today's meeting as well:

Question 1: From agenda 6 item in January 20, 2016, it notes that our annual ownership costs for unused CBT shares is approximately \$45 per unit for 2016. Does this unused water end up being discharged into the BT or do we now sell it? If we sell our unused water now, how much revenue are we gaining from it?

Answer 1: Each year, the City receives an allocation of water, measured as a volume of acre-feet, attributed to its CBT ownership. The allocation is determined as the number of CBT units owned by the City times the "quota" as determined by the Northern Water board of directors. The allocation is available for one year. First the city uses this CBT water for its own use. Then it sets aside enough water to "carryover" within the CBT system for the following year. It can also use this water to fill up Green Ridge Glade Reservoir. Any excess CBT after that can be rented to other farmers or municipalities. The city plans for a firm yield of a "1-in-100 year drought", which means there is usually an excess of CBT supplies. The city generally leases from 500 to 1000 acre-feet of water out, which would equate to \$22,500 to \$45,000 of revenue at the current rental rate of \$45 per acre-foot. This rental cost will increase commensurate with the annual increases of CBT assessments already anticipated according to the CBT rate study.

Another consideration is making CBT water available for beneficial use in the region. It can be important to demonstrate use to reflect the importance and benefit of the CBT project to the region. Renting the remainder of the City's CBT allocation, while earmarking a portion for carryover in the system, is the City's general mode of operation. Any undelivered allocation remains in storage in the CBT reservoirs and is available for use for all allottees the next year.

Since the city plans for a firm yield in a "1-in-100 year drought", there is an excess of water in most years. The earlier the City can determine if it has an excess, the sooner it can make water available to farmers on the rental market. Most renters are farmers, many of whom sold CBT water they previously owned. The market is such that typically earlier in the season the prevailing price is higher since water can be used for crops. Later in the season, the market price for CBT usually drops, as there is less demand.

Question 2: From the Jan agenda and also in this May agenda, we present the overall scenario, but there is still no business plan on the estimated revenues, costs, and net gain to W+P (annually, 10 years, 15 years). Without some estimate of these numbers, how can the

LUC make good comments about doing this? I would ask that we have an estimated brief financial summary comparing what we are now doing to what a 10 or 15 year lease would do.

Answer 2: Below is an estimated financial summary showing the estimated costs and revenues for 1 CBT unit:

**Estimated Financial Summary (Per CBT unit)
As of May 17, 2016**

ITEM	ANNUAL	10 YEARS	15 YEARS
1 Cost per Unit	\$ 45	\$ 450	\$ 675
2 Revenues per Unit			
2a Rental market (untreated)	\$ 45	\$ 450	\$ 675
2b Long term lease (untreated)	\$ 700	\$ 7,000	\$10,500

Notes: (1) Assumes 1 CBT unit = 0.7 acre-foot or 228,000 gallons
(2) Rental market is same as covering cost
(3) Long-term lease cost is \$1000 per acre-foot
(4) 10 and 15 year summaries do not include escalators or time value of money

These figures are presented on a “per CBT unit basis”. These unit costs/revenues may be multiplied by the number of CBT units equivalent to the lease amounts. For example a lease of 428.57 units, on average equivalent to 300 acre-feet would generate the above figures multiplied by 428.57. This results in an annual revenue of approximately \$19,285 for rental market versus \$300,000 for a long-term lease.

Question 3: On page 23, term 7, would you expand on the “Interruptible during a severe drought” as to how it protects Loveland in reclaiming that water during severe drought.

Answer 3: The Water Provider that is asking for the long term lease is asking for certainty and is willing to pay a higher price than the City’s annual assessment in return. In most years there will be enough water in the City’s portfolio to provide this lease water without any concern. However, in an extreme situation, the phrase “interruptible during a severe drought” provides protection to the City. This means that at the City’s discretion, if staff projections indicate a need for the CBT water in the lease, the City can keep the water allocation which is subject to the lease for its own use. It is likely that if this were the case, both the City and the Water Provider would be instituting water restrictions in an effort to lessen demand.

Question 4: Coupled with a financial projection on this possible lease, how often (and on what basis) can rates be raised or lowered for our water?

Answer 4: Setting the price for the lease could be set once initially. It may be reasonable to include an annual escalator. The basis could be the City’s rate increase for the upcoming year, the Water Provider’s rate increase for the upcoming year, or another escalator agreeable to both parties. Another term staff has seen in long-term leases is a re-negotiation of the lease price after 5 years. This would allow for a level of certainty as well as flexibility in accommodating any increases in cost unforeseen at the initial lease execution.

Question 5: January notes showed staff said there were 2 water providers talking to the City. Is that number still the same, or have others contacted us?

Answer 5: As of May 17, 2016, only two providers have contacted the city asking for consideration of this type of arrangement. One is actively interested and looking to move forward on a lease of 300 acre-feet. The second entity acquired some Windy Gap water of their own and is not interested anymore.

Question 6: Population estimate by Planning Dept.: What are they estimating our population will be in 2032?

Answer 6: The population estimate by Loveland Planning is 106,389, as compared to a current 2016 population of 74,427.

Greg Dewey

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“We may not agree on the specifics but we always agree to preserve the river.”

From: Larry Roos [mailto:lar5555@comcast.net]

Sent: Monday, May 16, 2016 4:02 PM

To: Greg Dewey <Greg.Dewey@cityofloveland.org>

Cc: Steve Adams <Steve.Adams@cityofloveland.org>

Subject: Luc May Agenda Questions on Agenda Item 4- Long term water leasing

Greg- I will have questions on Agenda Item 4, and thought it might be of value to give some of them to you now before the meeting. I kept my notes from our Jan meeting. Several of my questions were left unanswered since Chris' leaving broke the chain of discussions. Some questions will be redundant

From agenda 6 item in Jan, it notes that our annual ownership costs for unused CBT shares is approximately \$45 per unit for 2016. Does this unused water end up being discharged into the BT or do we now sell it? If we sell our unused water now, how much revenue are we gaining from it?

In the Jan agenda and also in this May agenda, we present the overall scenario, but there is still no business plan on the estimated revenues, costs, and net gain to W+P (annually, 10 years, 15 years). Without some estimate of these numbers, how can the LUC make good comments about doing this? I would ask that we have an estimated brief financial summary comparing what we are now doing to what a 10 or 15 year lease would do?

On page 23, term 7, would you expand on the “Interruptible during a severe drought” as to how it protects Loveland in reclaiming that water during severe drought.

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