



**PAGOSA AREA WATER AND SANITATION DISTRICT  
2009 ANNUAL REPORT**

April 26, 2010

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**PAGOSA AREA WATER AND SANITATION DISTRICT**  
**Archuleta County, Colorado**

**2009 ANNUAL REPORT**

For Activities Completed by December 31, 2009 and with Information about Past and  
Prospective Years

Pursuant to Colorado Revised Statutes Section 32-1-207(3)(c), the following information and documents (attached as Exhibits) are provided for the Pagosa Area Water and Sanitation District's ("PAWSD" or "District") fiscal year ending December 31, 2009. This report sets forth the activities undertaken by the District in its ongoing provision of water and wastewater services within and without its service area. Unless otherwise noted, all statistical information is as of December 31 of such year. This report follows the format set forth by the Colorado State Auditor's office, attached hereto as **Exhibit A**.

**I. District Description – General Information**

The Pagosa Area Water and Sanitation District is a quasi-municipal corporation and a political subdivision of the State of Colorado organized under Colorado Revised Statutes Title 32. A pre-cursor to the current District, the Pagosa Water and Sanitation District, was originally formed in 1971 to provide water and wastewater service to the Pagosa Lakes Area which was under development by Eaton International. That District was dissolved and the Pagosa Area Water and Sanitation District organized by order of the District Court in and for the County of Archuleta and State of Colorado entered on March 25, 1977. PAWSD was organized at this time for the purposes of restructuring its existing bond indebtedness and to provide additional bond funds to continue to install infrastructure.

**a. Board Members (term expiration)**

Karen Wessels, President and Chairman (May 2010)  
Harold Slavinski, Vice-President (May 2010)  
Windsor Chacey, Secretary/Treasurer (May 2012)  
Bob Huff, Vice-President (May 2012)  
Steve Hartvigsen, Vice-President (May 2012)

**b. Changes in Board Membership**

There were no Board changes in 2009.

**c. Official Contact for District**

Mrs. Carrie Weiss, District Manager  
Pagosa Area Water and Sanitation District  
100 Lyn Avenue  
P.O. Box 4610  
Pagosa Springs, CO 81157  
(970) 731-2691

**d. Elections Held in Past Year**

No District elections were held in 2009.

**II. District Boundary**

**a. Current Boundary and Service Description**

A District Boundary Map is attached hereto as **Exhibit B**. The boundaries of the District have expanded significantly over the years through the process of elections and petitions for inclusion, resulting in an area that now exceeds 76 square miles for water service and 9.1 square miles for wastewater service. In order to service this area, the District operates approximately 300 miles of water main lines and 100 miles of wastewater main lines, with associated infrastructure including over 1,200 fire hydrants, 24 wastewater lift stations, 3 water treatment plants, 12 treated water storage tanks, 2 wastewater treatment facilities and 5 reservoirs. Water service connections are currently provided to 5,356 properties which serve 7,177 equivalent units (a unit of measure employed by the District to equate to the level of service necessary for one single-family home). Wastewater service is provided for 3,033 properties and 4,234 equivalent units.

**b. Changes for 2009 and Proposed Changes for 2010**

The annual Boundary Map change notifications to the County and State are attached hereto as **Exhibit C**. There were no District boundary changes in 2009. In 2010, it is anticipated that a small inclusion of a tract of land described as the SE  $\frac{1}{4}$  of the SE  $\frac{1}{4}$  of Section 4, Township 35 North, Range 2 West will enlarge the District boundary by 39.68 acres. This Petition for Inclusion was approved by the Board of Directors at their regular meeting on February 9, 2010.

### III. Agreements

#### a. Agreements with Other Taxing Districts

A list of 2009 Intergovernmental Agreements is attached hereto as **Exhibit D**.

1. San Juan Water Conservancy District (SJWCD): The District had five separate Intergovernmental Agreements (IGA) with the SJWCD in 2009. These were regarding the sharing of costs and information related to the Dry Gulch Project, payment for PAWSD administrative staff time, office space and materials, and for costs associated with the Stevens Reservoir enlargement project.
2. Pagosa Fire Protection District: This IGA is regarding the maintenance of fire hydrants.

#### b. Agreements with Service Providers

The following agreements and authorizations for services were in place in 2009:

1. Hart Construction, District Contractor: Responsible for infrastructure maintenance and improvement work.
2. Davis Engineering: Responsible for water modeling, mapping, design and surveying services.
3. Briliam Engineering: Responsible for wastewater modeling and design services.
4. Harris Water Engineering: Responsible for providing Consulting Engineer services on numerous projects and water planning activities.
5. Collins, Cockrel and Cole: Responsible for providing all legal services.
6. Computer Medics: Responsible for providing all computer and phone network maintenance and installations.
7. Timberline Electric Controls Corporation and Browns Hill: Responsible for providing all maintenance and installation services for the Supervisory Control and Data Acquisition (SCADA) system.
8. Datamatic: Responsible for providing all Automated Meter Reading technology maintenance services.
9. Southwest Water Company: Responsible for providing all wastewater line Inflow and Infiltration televising and repair.
10. Clark, White and Associates, Inc.: Responsible for preparing financial statements for annual audit.
11. Wall, Smith, Bateman and Associates, Inc.: Responsible for conducting annual audit.

### c. Specific Project Contracts

In addition to routine maintenance and improvements, the following capital project contracts and authorizations were in place in 2009. For specific project descriptions, see Section V. below. Copies of the contracts and authorizations for MWH Americas, Briliam Engineering and Harris Water Engineering for Dry Gulch Project work are attached hereto as **Exhibits E, F, G and H**, respectively.

1. Stevens Reservoir Enlargement
  - 1.1 Weminuche Construction Authority: General Contractor
  - 1.2 Hart Construction: General contractor, wetlands mitigation construction
  - 1.3 Ecosphere Environmental Services: Environmental compliance oversight
  - 1.4 Aqua-Hab, Inc.: Wetlands mitigation oversight
  - 1.5 Davis Engineering Services, Inc.: Project engineer, surveying
2. Hatcher Water Treatment Plant Upgrades
  - 2.1 Briliam Engineering: Project Engineer
3. Highlands Lagoon Elimination
  - 3.1 Briliam Engineering: Project Engineer
  - 3.2 Triad Western Constructors: General Contractor
  - 3.3 Ecosphere Environmental Services: Environmental compliance and wetlands mitigation oversight
  - 3.4 Davis Engineering Services, Inc.: Environmental survey and permitting
  - 3.5 Horizon Environmental: Stormwater BMPs and environmental compliance oversight
  - 3.6 Aqua-Hab, Inc.: Wetlands mitigation oversight
  - 3.7 Kutak Rock: Bond Counsel
  - 3.8 Parker Ag Services: Biosolids Removal
  - 3.9 Western Technologies: Geotechnical Engineering
  - 3.10 Trautner Geotech: Geotechnical construction services
4. Dry Gulch Project
  - 4.1 Harris Water Engineering: Project Coordinator, USFS Land Coordinator and raw water resource consultant
  - 4.2 MWH Americas, Inc.: Project Engineer (dam, diversion and pump station)
  - 4.3 Briliam Engineering: Water Treatment Plant design
  - 4.4 Davis Engineering Services, Inc.: Surveying; Treated water transmission line design
  - 4.5 Aqua-Hab, Inc.: Wetlands ecology
  - 4.5 Ecosphere Environmental Services: Environmental compliance
  - 4.6 La Plata Archeological: Archeological services

- 4.7 Western Land Group: USFS land services
- 4.8 Southwest Land Alliance: Conservation Easement services
- 4.9 BBC Research and Consulting: Fee consultant

5. Meadows Well Capping

- 5.1 Val Valentine: Contractor

6. San Juan Pre-Sedimentation Pond Enlargement

- 6.1 SLV: General Contractor

**d. Water Provision Service Agreements**

1. Pagosa Golf: Agreement by PAWSD to provide up to a total of 900 acre-feet of water for irrigation purposes and lake level maintenance.
2. Log Park Water Company: Agreement by PAWSD to provide treated water service to the Log Park Water Company service area. In return, PAWSD received water rights to compensate for the additional water demand.

**e. Reimbursement Agreements**

No reimbursement agreements with developers or builders were in place in 2009.

#### IV. Service Plan

The PAWSD Service Plan is attached hereto as **Exhibit I**. The District's Service Plan was not changed in 2009. However, in order to respond to the Service Plan-related items in the Archuleta County Board of County Commissioner's March 8, 2010 letter to the PAWSD Board, the following information is provided for this 2009 Annual Report.

##### a. District Organization and Service Plan Creation

The Pagosa Water and Sanitation District ("PWSD") was originally established in 1971 by the Eaton Development Corporation to facilitate the development plans of that corporation. Under then and currently existing state law, the establishment of a Special District to facilitate funding of a development through taxing and bonding authority was and still is allowed. In 1976, when the PWSD was contemplating revision of its funding arrangements, the District was advised that formation of a new district would more readily facilitate a refinancing of the existing District's obligations and would provide for additional projected development costs. Therefore, in 1976, following statutory procedures, the Pagosa Area Water and Sanitation District ("PAWSD") was organized and ultimately decreed by the District Court in and for the County of Archuleta and State of Colorado on March 25, 1977. The decree was recorded at Reception No. 87712 with the Archuleta County Clerk and Recorder's Office. Attached to the decree of the District Court is a resolution of the Archuleta County Board of County Commissioners ("BoCC"), dated January 26, 1977, approving the organization of the PAWSD. This decree with attached resolution is attached hereto as **Exhibit J**.

The PAWSD Service Plan ("Service Plan") was modified on October 31, 1978 to specifically acknowledge that PAWSD would serve the replatted Martinez Mountain Estates with water service only, and that the lots within that platted subdivision would be removed from the PAWSD wastewater service area. This modification was recorded on November 2, 1978 at reception number 93167 in the Archuleta County public records. Notification of this modification or others pursuant to §32-1-202(2)(b) C.R.S. was not required for Title 32 districts organized before 1991, but the County-recorded modification is attached hereto as **Exhibit K**. The change from providing full service to just water service within the Martinez Mountain Estates prompted the creation of separate operational and taxing subdistricts known as District One and District Two within PAWSD because of the different levels of service provided and facilities required.

Colorado Revised Statutes are vague regarding when a Special District is obligated to seek formal amendment of its Service Plan. It is the firm belief of the District that all rules have been followed appropriately and that there have been no material changes to the Service Plan requiring a formal amendment, as supported in the paragraphs below. However, the District is open and willing to continued discussion of this matter.

## **b. Powers of the District as Incorporated into Service Plan**

### **1. General**

In paragraph five, the decree of the district court conveys to the Board of Directors of PAWSD, “all powers of a public or quasi-municipal corporation.” Reciting in part the language contained in Section 32-1-207(1), C.R.S., that paragraph further states that PAWSD activities shall

“conform as far as practicable to the approved Service Plan and Resolution of Approval of the Board of County Commissioners of Archuleta County, Colorado. The approved Service Plan and Resolution required by part 2 of article 1 of title 32, C.R.S. 1973, previously filed in the within action shall be, and the same are hereby, incorporated by reference in and appended to this Order.”

In paragraph three, the BoCC Resolution authorizing the organization of PAWSD states at paragraph 3, “that the Service Plan of the proposed Pagosa Area Water and Sanitation District is hereby approved without condition or modification.” Further, paragraph seven of the Decree states that, “Board of District and lawful successors shall hereafter take such steps and procedures as the needs of the District require.” In paragraph 8, “the District shall have all powers of water and sanitation districts per Title 32, Article 4; and all power and authority as hereafter conferred by law.” Article 4 of Title 32 was repealed and re-enacted as Section 32-1-1004 by the Colorado Legislature in 1991.

### **2. Out-of-District Facilities**

In addition to the general powers and authorities granted to all special districts organized under Title 32 (found at Section 32-1-1001(1), C.R.S.), water and sanitation districts have been granted additional power and authority by the Colorado legislature. These are described at Section 32-1-1006(1), C.R.S., and include among others the authority to divide the district into separate service areas according to the services provided, assess delinquency penalties on unpaid fees and charges, acquire water rights and construct facilities outside of district boundaries, exercise eminent domain, increase or decrease tap fees, and assess availability of service charges.

Section 32-1-1001(1)(e), C.R.S., specifically authorizes all Title 32 districts to acquire, dispose of, and encumber real and personal property. Section 32-1-1006(1)(e), C.R.S., specifically authorizes any water district or water and sanitation district to “acquire water rights and construct and operate lines and facilities within and without the district.” PAWSD operates and maintains diversion, storage and pipeline facilities that are located outside of PAWSD boundaries as well as within PAWSD boundaries.

It is, therefore, inconsequential that the purchase of land for the Dry Gulch Reservoir and associated infrastructure has occurred outside the service territory defined in the

Service Plan. In the purchase of real property the District has exercised the full statutory authority available to Special Districts.

**c. Service Area - Adherence to Service Plan**

1977

The Service Plan anticipated serving an area of approximately 9,000 acres and a population of approximately 4,800 by the year 2000. An annual water demand was projected of 2,692 acre-feet per year by 1998 and also projected wastewater service to 7,569 lots by 1984. The revenues necessary to fund construction of the District's infrastructure were projected to come from bond issues supported by a property tax projected at 20 mills, adjustable as needed by the Board. Specifically on page 19, "For the purpose of this study a 20 mill rate is used, however, this rate may be adjusted as required by the Directors of the District."

The Service Plan established equivalent units, the amount of water demand required by a single family dwelling in one year, as the base unit for computing water demand and for adjusting District fees and charges. The Service Plan projected a base service charge rate of \$16.50 per equivalent unit per month, and anticipated that all charges would be adjusted according to equivalent units of water demand. Water customers were to be charged an additional \$1.50 per thousand gallons used above the base amount provided at the base service charge rate. The rates contemplated by the Service Plan did not incorporate the tiered rate schedule now commonly used by many water utilities, including PAWSD, which significantly increases the service charge for water used above the base amount in order to encourage conservation and reduce waste. Since the implementation of a tiered water rate schedule, PAWSD has experienced a steady decline in customer water usage, and this trend has helped to delay PAWSD's need to finance new water resources projects and reduce costs to existing customers.

2010

Today, PAWSD serves approximately 50,000 acres and an approximate permanent population of 9,500. The significant transient tourist and part-time resident population is difficult to estimate, and therefore water demand planning on the basis of equivalent units is prudent. The PAWSD service territory has grown considerably in its 33 years of existence. A total of 59 territorial inclusions have occurred since 1976. All increases in service territory have occurred through the statutorily authorized inclusion procedure detailed at Section 32-1-401, *et seq.*, C.R.S., which requires a public hearing on the inclusion held by the Board of Directors, and an approval of the inclusion only after such hearing. The Board is prohibited from granting an inclusion if a municipality or county has submitted a written objection to the inclusion and can provide the property with adequate service within a reasonable time and on a comparable basis. PAWSD has never received a written objection to an inclusion from Archuleta County or the Town of Pagosa Springs.

The largest inclusion of territory into the PAWSD service area occurred following an inclusion election in 1992, at which voters approved the transfer to PAWSD of the obligation to provide water service to the combined service areas of the Town of Pagosa Springs and the Archuleta Water Company, and other adjacent areas not then serviced. This inclusion was accomplished in accordance with the statutory requirements, and in July 1993 PAWSD began providing water service within its newly included territory in PAWSD's District 2.

Because the inclusion process is statutorily authorized by Section 32-1-401, *et seq.*, C.R.S., publically noticed, requiring a public hearing with opportunity for county or municipal intervention, an election in some circumstances and ultimately approval by the district court, it is not deemed a material modification requiring amendment of the Service Plan.

#### **d. Water and Wastewater Service - Adherence to Service Plan**

Originally the Service Plan intended to serve both water and wastewater. However, as early as 1978 (as evidenced by the Service Plan modification attached hereto as **Exhibit K**), it became clear that some areas would only require water service. PAWSD District 1, in which both services are provided, contains approximately 6,300 acres which is less than the Service Plan originally projected and fewer accounts (3,033 in 2009) than the 7,569 lots the Service Plan projected by 1998. Due to the 1992 major inclusion described above and subsequent smaller inclusions of "water only" service territory into PAWSD's District 2, PAWSD now provides water service to an area much greater than the Service Plan originally projected. Despite this growth, in 2009 PAWSD had an annual treated water demand of 2,021 acre-feet, still less than the 2,692 acre-feet per year projected by the Service Plan as necessary by 1998. PAWSD's total annual water demand to date has not exceeded that projected by its Service Plan, nor have the number of projected wastewater taps been exceeded. This can be explained by lower actual per account water use than projected, and a slower than projected full development of properties within District 1. The District has not exceeded the original projections of the service plan for water or wastewater service, despite significant increases in its service area.

Following the passage of the Taxpayer's Bill of Rights ("TABOR") in 1992, the Colorado Legislature enacted legislation to acknowledge the existence of water activity enterprises (specifically exempted from TABOR) as Section 37-35.1-101, *et seq.*, C.R.S. That statute acknowledged the authority of water conservancy districts (organized under article 45 of Title 37, C.R.S.), water conservation districts (organized under articles 46, 47, 48 or 50 of Title 37, C.R.S.), water and sanitation districts or other entity created pursuant to Title 32, C.R.S., any entity created pursuant to Title 29, C.R.S., or a county or a municipality, to create and operate an enterprise within its operating structure if it engages in a government water activity business, defined in the statute as the provision of water and wastewater services, owned by such local government.

On July 13, 1995, PAWSD re-adopted and re-established its Water Activity Enterprise by resolution. This resolution is attached hereto as **Exhibit L**. The resolution recognized that PAWSD has always, and continues to operate a government-owned water activity business, i.e., the provision of water and wastewater services, and is authorized to utilize the enterprise status with regard to the requirements of TABOR. The constitutional provision known as TABOR specifically exempts water and wastewater activity enterprises from its requirements. Section 37-45.1-101(1)(f), C.R.S., specifically identifies the provision of wholesale and retail water supply and wastewater services as a qualifying activity for a water activity enterprise. Further, Section 37-45.1-103(1), C.R.S., provides that “any district which under applicable provisions of law has its own bonding authority may establish or may continue to maintain water activity enterprises for the purpose of pursuing a continuing water activity.”

PAWSD, by authority of its Service Plan and Decree, does possess its own bonding authority and therefore may continue to maintain its water activity enterprises. Doing so does not constitute a material modification of the Service Plan.

**e. Fiscal Adherence to Service Plan**

The Service Plan reads, “Water rates in the future may be adjusted as necessary to compensate for increased production and operating costs” (p.21). Since 1977, production and operating costs have increased many-fold. The Service Plan authorizes, and provides the flexibility to accommodate changes in costs, changes in District water and wastewater service demand due to water usage patterns and conservation practices, and changes to District revenue needs.

A spreadsheet of historical water rates is attached hereto as **Exhibit M**. The rate study completed in May 2003, which was used to establish a structure for the District’s Schedule of Fees and Charges, is attached hereto as **Exhibit N**. Since that time, the Board of Directors has adjusted such Fees and Charges as needed to accommodate the operational and planning realities encountered.

The PAWSD fee structure, and adjustments made by the Board in the exercise of its management authority, is within the parameters projected by the Service Plan, allowed by state law, and does not constitute a material modification of the Service Plan requiring formal amendment.

## V. Development Progress

### a. Projects completed

The following capital improvements were completed in 2009:

- Stevens Reservoir Enlargement: Dam construction completed in October.
- Inflow and Infiltration (I&I): Approximately 10 miles of the District's wastewater main lines were televised and cleaned, and authorized repairs made throughout 2009.
- Painting of Hatcher Water Tank: Completed in March
- Relocation of Lift Station #2: Completed in September
- San Juan River Pre-Sedimentation Pond: Enlargement of existing pond and associated environmental permitting and mitigation completed in November
- Installation of Automated Meter Reading Equipment Including Solar Panels: Completed in November
- Sawmill Bottleneck: Upgrade/replacement of a portion of water main at Sawmill and N. Pagosa Blvd., completed in October
- N. 5<sup>th</sup> Street Line Replacement: Replacement of a portion of water main at N. Fifth Street and Lewis Street, completed in July
- Rock Ridge Line Replacement: Replacement of a portion of water main in Alpha/Rock Ridge at Great West Avenue.
- Eagle's Loft Gravity Line: Installation of new wastewater main line and lift station on Park Avenue at Eagle's Loft, completed in January.
- Meadows Well Capping: Locating and capping of unused irrigation wells undesired by property owners in Pagosa Meadows subdivision, completed in October.

### b. Projects in Progress or Near Construction

- Stevens Reservoir Enlargement: Wetlands planting to be completed July 2010.
- Hatcher Water Treatment Plant Upgrades: Engineering completed, contractor chosen, and construction to start April 2010. Anticipated completion May 2011.
- Highlands Lagoon Elimination: Engineering completed and project is in construction. Anticipated completion November 2011.
- Biosolids Beneficial Use: Options researched and are under final evaluation at this time. Anticipated start August 2010 and completed in November 2011.
- Secondary Centrifuge: Project broke ground February 2010; anticipated completion in November 2010.

- Snowball Raw Water Pipeline: Discussions on-going with CDOT on the replacement of a portion of the water line at the Jackson Mountain slide area. Depending on successful negotiations, anticipated start date summer 2010 and completion fall 2011.
- Water Meter Replacement Program: Systematic replacement and reprogramming of all 5,356 water meters in District to read in 10 gallon increments. Beginning in April 2010, and depending on grant funding to expedite, anticipated completion 2012-2014.
- Inflow and Infiltration (I&I): Televising and cleaning of selected portions of the District's sewer lines to start in April 2010. After televising, point repairs should be completed by November of 2010. Manhole rehabilitation and repairs to start in May 2010, and be completed by November 2010.

## VI. Financial Plan and Financial Activities

### a. 2009 Audit

The 2009 Audit is currently in progress; the report will be available in late summer as directed by statute. The District suggests that in future years, this Annual Report be provided to the County following the release and Board approval of the final audited financial statements for the reporting year. The 2008 Audit Report is attached hereto as **Exhibit O**.

### b. 2009 and 2010 Budgets

The 209 Budget, 2009 Amended Budget and 2010 Budget are attached hereto as **Exhibits P, Q and R**, respectively.

2009 Amended Budget explanation: \$6,000,000 initially budgeted in 2009 represented anticipated proceeds from the 2008 Colorado Water Resources and Power Development Authority loan for construction of the new treatment technology at the Hatcher Water Treatment facilities. Early in 2009, the opportunity arose to pursue Federal Stimulus funding in the form of zero interest loans and grants. Intense efforts throughout the early part of the year yielded \$9.3 million dollars in such funding for the Highlands Lagoon Elimination project. Engineering and staff efforts were diverted from the Hatcher project during 2009, delaying the need for loan proceeds and making amendment of the 2009 Budget for this line item necessary. Repayment of both loans will be made from water and wastewater service charge revenues.

### c. Revenues and Expenditures

2009 Revenues and Expenditures are detailed in the 2009 Amended Budget attached hereto as **Exhibit Q**. Certified mill levies for individual General Obligation Bond Issues are attached hereto as **Exhibit S**. In order to respond to the financial-related items in the Archuleta County Board of County Commissioner's March 8, 2010 letter to the PAWSD Board, the following information is provided for this 2009 Annual Report.

#### 1. Service Charges

Due to the increasing costs of regulatory compliance, energy, chemicals and other operating costs, water and wastewater service charges have more than doubled since 2003. In 1977, water service charges were projected in the Service Plan to be \$16.50 per month for one equivalent unit base or \$198 per year. The current 2010 PAWSD

service charge is \$12.00 per month for the base rate plus an increasing tiered rate structure based upon water usage. In 2006 through 2009, the average usage per equivalent unit throughout the PAWSD water system was between 4,000 and 5,000 gallons. The monthly service charge for that usage under the current PAWSD rate schedule would be \$33.00 (\$12 base rate + 5 x \$4.20). The 100 percent increase over the 33 years that the District has been in existence is computed to be 3% per year in simple terms, and well within a reasonable inflationary increase over the same period of time. The current monthly service charge for a customer using 12,000 gallons of water is \$77.60 (\$12 base rate + (8 x \$4.20) + (4 x \$8)).

Projections about rates for future years cannot be made, as there are simply too many variables such as (to name a few): the nature of the global, national, state and local economies, the amount of precipitation received from year to year, national health care reform and its affect on health insurance rates, cost of living and inflation, cost of construction commodities, energy costs, programs put in place by the District to optimize its operations, community water conservation practices, new State and Federal regulations requiring implementation of more advanced and costly treatment technology, and local growth rates. Similarly, these factors undermine comparisons between PAWSD and other Districts as none of these uniformly affect disparate water providers, just as various factors do not evenly affect the needs of different Counties for property tax revenue.

A table of historical water rates for the last ten years is attached hereto as **Exhibit M**. The rate study was completed in May 2003 and was used to establish the structure for the District's Schedule of Fees and Charges is attached hereto as **Exhibit N**.

## 2. Service Charges and Demands of Growth

Colorado HB 08-1141 prohibits a local government (including a home rule Town) from approving an application for a development permit unless it determines that the applicant has demonstrated that the water supply required at full build-out is adequate. As the local governments continue to approve development permits and grant vested rights, PAWSD is expected to accommodate this and plan on expansion of its infrastructure in order to provide an adequate water supply to these vested development rights unless the county or other local government develops its own public water system, or the developer develops a private water system. Because many of the approved developments occur within PAWSD's boundaries, PAWSD has predicated its planning on developing dependable water resources to supply such developments. It is a fundamental philosophy of the PAWSD Board that the costs associated with the demands of growth – applicants for development permits, for example – should not be imposed on existing customers. Current customers already bear the costs of replacing existing aging infrastructure, costs which are reflected in water and wastewater service charges and in the 40-year Capital Improvement Plans. These CIPs are attached hereto as **Exhibit T**. Sound financial planning practices from the past continue to serve the

District's customers, allowing the District to hold down service charges and not burden existing customers with costs that are required to serve the water demands of growth.

Specific to the BOCC's concerns regarding the pledging of service charges to pay for the Dry Gulch Project, construction of that project will not begin until growth demands are indicated and funding options are viable. The only debt outstanding on this project is for the acquisition of land required for a reservoir of any size. This was funded by a low-interest state-backed loan (Colorado Water Conservation Board, or CWCB) and will be paid off from growth-related Water Resource Fee (WRF) revenues (see Section VI(d)(3) below for further discussion of loan). PAWSD acknowledges that should the existing low WRF revenues continue for an extended period, the CWCB loan costs may need to be passed on to existing customers. That would be the last resort of several pursued by the District; to the extent that the entire amount of debt service related to the land purchase was financed by service charges, this expense would result in additional charges of approximately \$7.00/per month/per equivalent unit. As an early intervention measure to preclude this circumstance, the PAWSD Board has directed that, in addition to the current balance of \$1,027,635 in the WRF fund, an additional \$600,000 be reserved from the Capital Investment Fee (CIF), the total which would provide at least two years of payments on the CWCB loan before any such burden would be put upon existing customers. It should be noted that actual payments and payment schedule will not be determined until substantial completion of land acquisition.

In addition to the reservoir, another component of the Dry Gulch Project is the upgrade and capacity expansion of the Snowball Water Treatment Plant. Currently this aged treatment plant is running at capacity (1.5 million gallons per day (MGD) and there is a moratorium in place for new inclusions into the area served by this plant, which is primarily defined as the Town of Pagosa Springs and areas northerly, southerly, easterly and westerly to Piedra Road. It is anticipated that funding will be required to replace the Snowball Water Treatment Plant in 2014, or later depending on growth and community water use patterns. Capacity expansion will be paid for by growth fees. Existing customers will pay for this necessary technological upgrade of the existing capacity (1.5 MGD). The most recently estimated cost for this upgrade is \$9,371,000. The District has substantial unrestricted funds in reserve exceeding \$4 million that could be used partially for this replacement. In addition to these funds, approximately \$2,770,000 is available from a 2006 bond issue. The debt service payments on a loan necessary for the upgrade will need to be funded through service charges. The Briliam Engineering Report of Probable Cost for Snowball Water Treatment Facility is hereto attached as **Exhibit U**.

### 3. Bad Debts

In 2007, County Development Services Director Rod Proffitt presented a request from the Archuleta County BOCC for the District to consider waiving any delinquent charges resulting in existing District liens from past certification of delinquent accounts to the County Treasurer for collection with property taxes. The topic had been previously

discussed with regard to cases where the amount due exceeded the assessed value or market value of a property. The Board of Directors initially offered to cooperate with the County in this regard by accepting 30% of the fees recorded upon the County's successful sale at auction so that the properties could be put back on the tax rolls. The Board of County Commissioners rejected that proposition and again petitioned the PAWSD Board that in the "spirit of community well-being" to fully remove the certification of past due amounts, which the PAWSD Board did in October of 2007. (PAWSD minutes are attached hereto as **Exhibit V.**) As a result of this action and upon final determination of the amount due on such applicable accounts, the District performed a bad debt adjustment on its 2008 Financial Statement in the amount of approximately \$172,500 in the Water Enterprise and \$72,900 in the Wastewater Enterprise. To the District's knowledge, the County has not yet taken any action to auction these properties or otherwise restore these properties to the tax rolls.

#### **d. Debt Service**

##### **1. Authorized but Unissued Debt**

PAWSD currently has no authorized but unissued general obligation debt.

In 1992, the passage of TABOR repealed approval of any previous to 1992-authorized General Obligation debt that had not yet been issued.

##### **2. Financial Contractual Obligations**

The Total Net Assets of the District have steadily increased as evidenced by the last four years' audited Financial Statements (2005-2008; the 2008 Audited Financial Statement is attached hereto as **Exhibit O**). Adjusted Net Revenue trends and debt service coverage are illustrated on the spreadsheets attached hereto as **Exhibit W**. Although fluctuating, net revenues remain well in excess of bond resolution requirements as illustrated. A complete listing of the District's General Obligation Bond debt, Revenue Bond debt and 2009 Lease Obligations are attached as **Exhibits X, Y and Z**, respectively, and the executed loan and bond documents are attached as **Exhibit AA**.

It is anticipated that with the District's flawless history of compliance with existing revenue bond resolutions and debt service payments, along with the expected retirement of the 1998 Revenue Bond in 2013, financing for the Snowball Water Treatment Plant upgrade in 2014 will be available and affordable. If financing cannot be obtained, the project will be delayed from this currently-anticipated 2014 date.

##### **3. Colorado Water Conservation Board Loan for Dry Gulch Land Acquisition**

A short-term bridge loan, obtained through Wells Fargo at a 4.5% interest rate, in combination with \$1,000,000 in grant funds obtained by the SJWCD from the State Water Supply Reserve Account, enabled the first phase of the land purchases for the Dry Gulch Project to proceed. Voters approved a ballot issue in 2006 allowing the SJWCD to accept Dry Gulch Project grant funding. Long-term financing was provided by the Colorado Water Conservation Board (CWCB) at 3.5% over a 30-year term and, upon those loan funds becoming available, the Wells Fargo bridge loan was paid off in January of 2009.

County representatives have made false, or perhaps misinformed, allegations that the District did not use current representations in obtaining approval for the CWCB financing. Information in the CWCB Loan Application and supporting documentation was current at the time of submittal in August of 2007. Both PAWSD and SJWCD annually review actual growth and water usage data to adjust estimates of future water demands. The Equivalent Unit (EU) method is necessary for estimating growth because it better indicates the water service demand. Using permanent population estimates based on census information does not accurately reflect water demand created by seasonal population fluctuations common in Archuleta County due to the large percentage of vacation homes and the tourism-based economy. In January of 2007, the Districts reviewed the EU growth data from 2000 to 2006 as well as per capita daily use. This review indicated that future modifications should be made to the previous water demand estimates provided in the 2003 Report. Those then-current growth estimates based upon the 2000 to 2006 period were used to formulate the Feasibility Study that accompanied the Loan Application submitted in August 2007. In November 2007, a reduction in the total dollar amount requested was made because of the statewide political climate and the amount of funding available for authorization by Governor Ritter in House Bill 08-1346 for CWCB loans and as recommended by the CWCB. Although not known at the time of submittal in August 2007, the growth in EUs by December 2008 was within 130 EUs, or less than 2% different, from the projections made at the time of the loan submittal.

The CWCB loan was approved in January 2008 and upon the Governor's signature in June of 2008, contract negotiations and parity testing could begin. Parity testing, the formal Certification by an Independent Certified Public Accountant necessary for issuance of debt secured by pledged revenues, was performed for the twelve month period (in this case, July 2007 – June 2008) immediately preceding the Board's execution of the debt authorization in July of 2008. The process by which to obtain CWCB financing is a comprehensive and protracted process involving several independent and objective oversight authorities. In fact, final conditions were not met and actual disbursement from that authorized amount was not actually received until January 2009, fully two years from the inception of discussions. In summary, the District used the best information available at the time of the application submission and no significant variance was apparent at the time of the application's approval. Objective oversight of debt service continues through PAWSD's independent annual audit. Again,

it should be noted that the final loan repayment schedule will be determined upon substantial completion of land acquisition for the Dry Gulch Project.

**e. Actual and Assessed Valuation History**

Actual and assessed valuation for the current year and seven years prior is attached hereto as **Exhibit BB**.

**f. Mill Levy History and Information**

The mill levy history for the current year and seven years prior are attached hereto as **Exhibit CC**.

The Service Plan authorized the District to issue debt instruments to finance the infrastructure necessary for the District's services. In 1977, the Service Plan anticipated a mill levy throughout the District to pay bonded indebtedness through 1996. For 2010, PAWSD certified an operations mill levy of 6.090 mills for District 1 and 1.949 mills for District 2. In 2010, the general obligation bond mill levy for District 1 was certified at 5.264 mills, and was certified at 2.854 mills for District 2. Combining the operational and debt obligation mill levies for each district reveals a total in 2010 of 11.364 mills for District 1 and 4.811 mills for District 2. The total mill levy burden in each district is substantially less than the 20 mills projected by the PAWSD Service Plan.

**g. Estimated Amount of Additional General Obligation Debt to be Issued**

No additional General Obligation debt is planned at this time. General Obligation debt will almost certainly be required in the future to provide services and facilities for proposed developments already approved within the PAWSD service area by the local government land use authorities in Archuleta County, and for individual territory inclusion requests.

**VII. Other Information Specifically Requested by Board of County Commissioners**

In its letter dated March 8, 2010, the BOCC made specific inquiries. To the extent that the District believes that such inquiries have not been answered by the Annual Report herein, the District provides the following explanations.

**a. Dry Gulch Project Size and Cost**

1. History of Project

The District has historically been proactive regarding future planning. Raw water storage was a critical component of the 1977 Service Plan and continues to be critical to District planning today. Since 1987, long before more than doubling the PAWSD water

service area with the inclusion of the Town of Pagosa Springs and Archuleta Water Company systems, PAWSD in cooperation with the SJWCD has been looking ahead to ensure that reliable, high quality raw water sources and treatment facilities are available in the future for this community. Through the SJWCD's efforts, a large scale analysis was undertaken to evaluate alternative raw water reservoir sites that could meet future water demands. This study, 1989 Alternative Reservoir Site Evaluation, is hereto attached as **Exhibit DD**. After commissioning the 1989 study and authorizing subsequent geotechnical work on the most suitable reservoir sites, Hidden Valley was identified by the SJWCD Board in 1991 as the optimal site. Purchase of the site was pursued for \$1000 per acre. During this time, however, a developer purchased the property for private use. To achieve agreement with the developer allowing the Districts to use the property for a 3,000 acre-foot reservoir, the Districts would have had to build the dam, accept water level drawdown restrictions, deny public access, and relocate an easement and water rights diversion location on the San Juan River. In return, the developer would have had to obtain adequate domestic (as opposed to existing agricultural) water rights. The developer was unable to secure these rights. Because sufficient water rights were questionable and restrictions on use of the reservoir would have been imposed, the Boards of both Districts chose to pursue other alternatives. In retrospect over 20 years later and after inclusion of the Town of Pagosa Springs and Archuleta Water Company systems, the relatively small size of the Hidden Valley reservoir would have been insufficient for long-term future water security. Compiled minutes of the Hidden Valley developer negotiations are hereto attached as **Exhibit EE**.

Based on the 1989 report and follow-up study in 2003 by Harris Water Engineering (Appraisal Report to Evaluate Future Raw Water Demands and Water Supply Alternative Plans, attached hereto as **Exhibit FF**), the Dry Gulch site was determined as the next most suitable site. It is the only remaining location that can easily accommodate sufficient water capacity and has proximity to existing main water supply lines and population centers. PAWSD, together with the SJWCD, purchased 661 acres of property for the Dry Gulch Reservoir at a cost of approximately \$9.8 million in January of 2008. This property is necessary no matter what size reservoir is ultimately constructed. The SJWCD has an existing 1967 conditional water right for 6,300 acre-feet at this site. A portion of the property will also be used for the new Dry Gulch Project treatment plant, pump station and diversion from the San Juan River. Acquisition of approximately 140 acres of additional private land is currently under negotiations. Simultaneously, PAWSD and the SJWCD are pursuing a Forest Service Special Use permit and/or land exchange for the remainder of the property required. This land is also needed regardless of reservoir size.

## 2. Drought Management Planning

Current planning for the Dry Gulch Reservoir is for a storage capacity of 19,000 acre-feet, based on demand projected through for the year 2055. Of this amount, 13,610

acre-feet is for a One-year Safety Supply Margin. These current figures were presented to the public in February 2009, approved by the Board in March 2009, and subsequently published in hard copy and digital form via the District website as the 2009 Current Projections for Future Growth, Water Demand and Storage Needs report. This report reflects comprehensive re-analysis of population and demand projections that supersede earlier projections, such as those found in the 2003 Harris Water Engineering Appraisal Report to Evaluate Future Raw Demands and Water Supply Alternative Plans. The 2009 Current Projections for Future Growth, Water Demand and Storage Needs report contains all of the assumptions used in calculating the reservoir size, including the storage capacity allocated for drought planning, and is hereto attached as **Exhibit GG**.

The Board of Directors established its policy to provide for a One-Year Safety Supply Margin by Resolution on April 13, 2004 through development and adoption of its Water Conservation and Drought Management Plan. The One-Year Safety Supply Margin has been defined by PAWSD as storage of the total annual water system demand in addition to water storage needed to satisfy the normal annual water demand. In the Plan the adoption of the One-Year Safety Supply margin is referred to on page 11,

“A firm water supply for this plan is defined as, “adequate raw water facilities incorporated with conservation measures to provide the normal water demand without mandatory restrictions, plus a one year supply safety margin.””

The Board recognized that storage of water in times of surplus stream flow for use when adequate stream flow is not available has been essential to PAWSD’s ability to provide a reliable water supply in the past, and continues to be necessary to supply future demands. Prior to the adoption of this policy in 2004, information was sent to all customers via the District newsletter in May 2003. In January and April 2004 public hearings were held. No comments were made in opposition to the safety supply margin policy by the public or representatives of local government agencies. This newsletter, the Water Conservation and Drought Management Policy, and minutes of the regular meeting adopting the policy are attached as **Exhibits HH, II and JJ** respectively. In enacting its policies, including the One-Year Safety Supply Margin, each member of the Board of Directors has acted under his common law duties to exercise good faith, business judgment and astute management deliberation in acting on behalf of the best interests of the District. Most recently, the Colorado Supreme Court in its November 2009 decision upheld the District’s One-Year Safety Supply Margin as reasonable.

### 3. Size and Cost Projections

In 2008 and 2009, a major re-analysis of the calculations and assumptions underlying the Dry Gulch Project planning was undertaken. This Project re-analysis was presented to the public on February 23, 2009 and adopted as described above. Fundamental

changes were made in projections including a reduction in projected equivalent units, changes in the calculation of water demand, the safety supply margin and the financing structure. Specifically, PAWSD's WRF was established to fund only raw water supply rights and facilities, with treatment and distribution components funded by the CIF. A detailed cost analysis was performed by a nationally recognized engineering firm, MWH Americas, which resulted in a substantial increase in cost projections for the reservoir and pumping station. That cost analysis was developed in a manner such that the costs could be reasonably determined based on any of the reservoir sizes buildable at the Dry Gulch site. In addition, PAWSD, in conjunction with SJWCD, hired the nationally recognized economics firm BBC Research and Consulting to perform an analysis of the Districts' new projected water demands, capital projects costs and PAWSD's fees for meeting such demands in 2055. The results of that analysis were also incorporated into the 2009 report and have been adopted by PAWSD.

The ultimate size of the Dry Gulch Reservoir will be determined at the time of its final design, no earlier than 2018. This final sizing decision will be based on observed growth, water demand and financial realities, and revised projections based on such observed data. Based on current growth projections, if the reservoir was to be designed tomorrow, it would be 19,000 acre-feet, which would include a One-year Safety Supply Margin of 13,610 acre-feet. Given the topography, the site will efficiently accommodate a maximum storage capacity of 35,000 acre-feet.

Water planning is difficult because the external conditions used as the premises for each plan constantly change. The 1989 Alternative Reservoir Site Evaluation used data from the drought year 1977 as a basis for determining the future need for 3,300 acre-feet of reservoir storage. The water demand calculations used were dependent upon equivalent unit growth projections at that time. Cost projections were based upon certain assumptions unique to that time as well. Subsequent planning documents, most notably the 2003 Appraisal Report to Evaluate Future Raw Water Demands and Water Supply Alternative Plans, incorporated new data resulting from the drought of 2002 which dramatically affected the demand projections. Equivalent unit growth and cost projections were also updated based upon information available at that time. The District has committed to reviewing actual growth and water demand projections as well as cost projections on an ongoing basis. Similar in approach to State Demographer's Office forecasting, these re-evaluations incorporate long-term economic trends but average out short-term trends that might include job and student gains and losses and retail, real estate and construction booms and busts.

Over the next twenty years (the minimum planning horizon for this type of project), as with the last 20 years, estimated project costs will likely continue to fluctuate for a variety of possible reasons: inflation, increased regulations, legal actions, construction commodity prices and changes in project scope due to changes in the economy and community demographics. The only way to make financial considerations for the unknown is to consider the known: what have been the overall trends in our

community for a period of prior years? These growth trends are used as the basis for project size and cost projections. Projections are adjusted as future unknowns become past knowns. Dry Gulch Project cost and water demand projections, with their resultant affects on the 40-Year Water Capital Improvement Plan, will be revised in the next few months prior to creation of the 2011 budget.

#### 4. History of Dry Gulch Water Rights and Associated Legal Expenses

In December of 2004, the SJWCD and PAWSD jointly filed application in District Court, Water Division 7 to adjudicate conditional water diversion and storage rights for the Dry Gulch Project. A decree was issued in July 2006, which was subsequently appealed by Trout Unlimited to the Colorado Supreme Court. The Colorado Supreme Court remanded the case back to District Court in November 2007 for further proceedings. A decree was issued by District Court in September 2008 that provided for a planning period of 50 years, for a direct flow right of 50 cubic feet per second (cfs) and a water storage right for a maximum annual storage of 25,300 acre feet. Trout Unlimited appealed the District Court decree to the Colorado Supreme Court, which was again remanded in November 2009 to District Court. Currently, that case is pending additional trial and testimony which is anticipated sometime in 2011. In preparation, the Districts will be re-evaluating water demand projections and future land uses among other factors.

The latest Supreme Court opinion found that a one-year storage reserve equal to the water system's annual demand is appropriate (the Districts refer to this as the One-year Safety Supply Margin) and affirmed the reasonableness of a 50-year planning horizon. The Districts believe that obtaining a conditional water right with the earliest possible effective date (2004) is important for the community while the San Juan River still has unappropriated water available. Due Diligence is required on conditional water rights every six years to assure that the amount of water decreed is appropriate to the needs of the community served. Ultimately, the amount of conditional water diversion and storage rights available to the Districts in the pending case will be determined either through negotiated settlement with Trout Unlimited or a Water Court decree issued after trial. The Districts will also have the opportunity in future years to file applications with the Water Court for changes to its water rights or to add supplemental rights. In any event, the SJWCD holds a 6,300 acre-foot water storage right at the Dry Gulch Reservoir site that can serve as the basis for a minimum size water storage project.

The desire of the PAWSD and SJWCD Boards to obtain adequate water rights for future needs has resulted in an unprecedented legal opinion from the Colorado Supreme Court. Unfortunately there has also been a significant cost. To date, \$185,736 has been spent since 2004 on legal services related to the Dry Gulch Project water rights court actions. This expenditure has come in part from the PAWSD Water Enterprise (prior to 2006) and the Water Resource Fee revenue. Other legal services not included in the

above amount, but associated with Dry Gulch, include those for land acquisition negotiations and assistance with reports such as this one.

#### **b. Water Loss**

The efficient use of the water is another important component in water supply planning. The District is currently experiencing a higher than acceptable amount of “unaccounted for” or “lost” water. Simply put, the water produced at the various treatment plants exceeds all known usage by at least 20%. All known usage includes water metered and sold to customers, water used in the treatment process, water used to maintain fire protection equipment and estimates of metering inaccuracy. The difference between water produced and all known usage could be the result of real loss through leaks in the distribution system or apparent loss from inaccurate meters (a “paper” leak) or both. Among the many challenges in reducing unaccounted for water are the unique topographical and geological features of the local terrain, the vast geographic size of the District and the varied pressure zones required for meeting operating standards for flow. Water lost through distribution line leaks does not necessarily rise to the surface immediately but can move for miles through the subsurface without evidence.

As stated in its mission statement, the District places a high priority on water conservation and the efficient use of the water resources. The Automated Meter Reading (AMR) technology program which began in 2008 with funding through the Colorado Water Resources and Power Development Authority has already significantly reduced the amount of treated water lost through customer service line leaks. A Water Accountability Program has been developed and is being implemented in 2010 with a first step major effort to upgrade and replace meters. By reducing meter reading inaccuracy and lowering the reading increments from 1,000 gallon to 10 gallon increments, the meter replacement program will reduce apparent loss and allow PAWSD to further refine its water conservation program. District resources have been committed to ongoing fixture efficiency rebates which have curtailed water demand by an estimated fifty acre-feet (approximately 2.5% of current annual treated water produced) since inception in 2004. The District strives to keep the community informed regarding its Water Conservation and Water Accountability programs and will continue to report progress in this area.

The draft Water Accountability Program plan and pertinent sections of the recently-adopted Strategic Plan are attached as **Exhibits KK** and **LL**, respectively.

#### **c. Economic Effects of Connection Fees**

Due to the effect of downward-trending local economic conditions caused by the national recession, actual WRF and CIF revenues collected since 2008 have been dramatically reduced from the revenues originally projected. The PAWSD Board of

Directors continues to hold the philosophy that long-range planning should not be interrupted or diminished by economic downturns and that PAWSD's plans have the flexibility to delay capital requirements to coincide with demand and funds available. Rather than derailing funding strategies in place, PAWSD has opted to pursue other means to encourage economic activity such as the pursuit and award of \$9.3 million dollars in Federal Stimulus funding for local construction, which is providing jobs in this community. A number of other measures were implemented by PAWSD in support of the local community including offering amortization of fees and affordable housing fee waivers.

Actual quantification of the effect of fees on economic growth is an act of guesswork, because it is impossible to know how much growth there would have been if fees had not been in place. Correlation is statistically sound only when no other factors exist. What is quantifiable is the number of new construction building permits outside District boundaries versus inside PAWSD boundaries for 2009. One would expect, no other factors being of influence, that if PAWSD fees were affecting growth, then growth would have been stronger outside PAWSD boundaries. However, excluding permits issued for improvements such as decks or garages that would not affect water requirements, 2009 records from the County and Town Building Department show 31 permits were issued for outside the District and 56 permits issued for within PAWSD boundaries. Given that the County and Town waived most fees for the latter part of 2009, this is even more surprising. Similarly, one would expect that if fees were affecting growth, more new development within PAWSD boundaries would have occurred on the 170 vacant parcels not subject to WRF and a portion of the CIF (meters already in place) or via occupation of the vast vacant commercial space, again potentially not subject to CIF or WRF. Thus, given the evidence, or lack of evidence and ability to definitively correlate the relationship between fees and economic growth, the Board maintains its position that a consistent mechanism for planning for the impacts of growth is most responsible to the community. The statement of this position read by Board Chairman Karen Wessels to the public at the July 14, 2009 PAWSD regular meeting, at which County representatives were in attendance, is attached hereto as **Exhibit MM**.

A Connection Fee reference table is attached hereto as **Exhibit NN**. A summary of revenues collected as a result of the CIF and WRF as well as the various rates charged since 2000 is attached hereto as **Exhibit OO**.

## **VIII. Conclusion**

The Pagosa Area Water and Sanitation District has vast responsibilities for the health, safety and welfare of its customers within the Town of Pagosa Springs and parts of Archuleta County, for the health of the environment and for the fiscal repercussions to the District and community of its decisions. The Board of Directors does not take these responsibilities lightly, and often decisions that are in the future best interest of the community are difficult,


particularly given the current economic climate and the mountains of misinformation, despite the District's best attempts to curtail, that continues to circulate regarding the District. However, the Board continues to firmly embrace the philosophy of the importance of long-term planning, particularly regarding water supply given the state and regional global climate, population growth and water demand trends. It is no secret that economically, water is the future oil of the arid southwest. Those communities who have it will prosper; those who do not will languish. Given the desire expressed by local governments to stimulate and grow a diverse and vibrant economy, the PAWSD Board and staff are dismayed that there has not been a higher level of political support for Board decisions that insure this economic vitality via high quality and reliable water and wastewater services provision, planning and financing. To this end, the PAWSD Board and staff have not been at all operationally or fiscally negligent, as insinuated in the March 8, 2010 Letter from the Board of County Commissioners.

In keeping with our desire to continue to educate the public regarding its mission, and in keeping with its sincere intent to represent the desires of its constituency, beginning in May and running through September or October 2010, the PAWSD Board will conduct monthly Dry Gulch Project community workgroup meetings. At the final meeting, the work group will be asked to seek a consensus on the size of reservoir (which will dictate associated infrastructure) PAWSD should pursue. This decision will be documented and serve as the basis for future decisions and any court water rights actions required regarding the Project. Opportunities will be available in ensuing years for the community to revise its consensus. The PAWSD Board has heard and understood that the community wishes to have a higher level involvement into the planning of this community resource and is supportive of this opportunity. We expect that the County will appoint a representative to, and be an active participant of, this workgroup.

It is the sincere hope of the PAWSD Board that this report addresses all concerns expressed by the Board of County Commissioners and provides the mechanism of education about the District's responsibilities and bases for decisions. Only through enhanced understanding will community support be wrought.

Respectfully submitted as of the 26<sup>th</sup> day of April, 2010.

PAGOSA AREA WATER AND SANITATION DISTRICT

By:   
Karen A. Wessels, Chairman and President  
On Behalf of the Board of Directors  
Pagosa Area Water and Sanitation District