

INVITATION FOR PUBLIC COMMENT

NOTICE IS HEREBY GIVEN that the Board of Directors of the Northern Colorado Water Conservancy District (Northern Water) is inviting the public to comment on a proposed Reserve Fund Policy. The policy is being developed pursuant to the authority of the Board of Directors under the Water Conservancy Act, C.R.S. § 37-45-101 *et seq.*

The Board will receive verbal and written comments at its June 6, 2019, Planning Session held at 9 a.m. at Northern Water, 220 Water Avenue, Berthoud, CO 80513. Alternatively, written comments for transmittal to the Board may be sent to nwreserve@northernwater.org or to the address above by 4:30 p.m. on June 4, 2019.

The proposed Reserve Fund Policy may be obtained below or by calling 1-800-369-7246 to receive a copy by mail.

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May 9, 2019

NORTHERN COLORADO WATER CONSERVANCY DISTRICT NORTHERN WATER RESERVE POLICY

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5 WHEREAS, the Northern Colorado Water Conservancy District (Northern Water) was created
6 under the Water Conservancy Act (C. R. S. 37-45-101 et. Seq.), which gives the Board of Directors
7 (Board) the power to levy and collect taxes and assessments and the ability to invest or deposit
8 any surplus money; and
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10 WHEREAS, Northern Water signed a repayment contract in 1938 with the U. S. Bureau of
11 Reclamation for the Colorado-Big Thompson (C-BT) Project which requires Northern Water to
12 assess levies and assessments in an amount sufficient, together with the tax levy, to meet Northern
13 Water's obligations to the United States under the repayment contract; and
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15 WHEREAS, Northern Water, in partnership with the U.S. Bureau of Reclamation, is responsible for
16 the operation and maintenance of the C-BT Project and for providing the funding necessary to
17 sustain the Project's water supply purposes. The C-BT Project, originally constructed between 1938
18 and 1957, provides an essential supplemental supply to over 30 municipal and industrial water
19 users serving a population of more than 960,000, and 640,000 irrigable acres situated within the
20 boundaries of Northern Water. On an annual average basis, the C-BT Project provides
21 approximately 213,000 acre-feet of supplemental water supply to C-BT Project allottees or other
22 designees with the return flows from the first use of C-BT Project water being diverted and
23 beneficially used by downstream water users within Northern Water boundaries; and
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25 WHEREAS, Northern Water desires to be a fiscally sound organization with a financial position in
26 which revenues support expenditures sufficiently to operate and maintain the C-BT Project, and
27 to provide for an adequate level of reserves to manage the numerous risks and uncertainties that
28 threaten the ability to deliver water through the C-BT Project; and
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30 WHEREAS, Northern Water, on behalf of its constituents within Northern Water boundaries and
31 as allowed under the Water Conservancy Act (C. R. S. 37-45-118), has a broad responsibility to
32 study, plan, develop and protect water resources for existing and future water needs of
33 Northeastern Colorado; and
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35 WHEREAS, Northern Water conducted a Cost of Service Rate Study in 2014 that developed a 10-
36 year financial plan and options for meeting projected revenue and reserve requirements through
37 the planning period; and
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39 WHEREAS, Northern Water passed resolution D-1228-07-14 which stated, among other solutions,
40 that Northern Water would further study and discuss unrestricted reserves prior to implementing
41 rate increases that are primarily intended to build unrestricted reserve balances; and
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43 WHEREAS, Northern Water contracted with CH2M in 2015, with updates in 2018, to complete a
44 Financial Reserves Study. The Financial Reserves Study recommended establishing four categories

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45 of unrestricted reserve funds, and to further define, quantify and discuss its risks of operation and
46 tolerance for risk before implementing a formal reserve policy; and

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48 WHEREAS, Northern Water contracted with Mott McDonald in 2016 (Phase I) and 2018 (Phase II)
49 for a condition assessment of selected C-BT transferred works and joint works facilities. Condition
50 assessments completed thus far have concluded that the inspected C-BT Distribution System
51 structures are, for the most part, in fair to good functional condition overall, however, some of the
52 structures are in poor condition, with risk of failure. Additional phases of the condition assessment
53 are anticipated in the future; and

54
55 WHEREAS, Northern Water contracted with Mott McDonald in 2018 to provide a Colorado-Big
56 Thompson System Asset Value study. The study concluded that the Class 5 Opinion of Probable
57 Cost for replacement of C-BT Project water conveyance features is \$4.9 billion, with an expected
58 accuracy range between \$3.4 and \$7.3 billion; and

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60 WHEREAS, Northern Water has reviewed guidance from professional organizations including the
61 American Water Works Association, as well as the policies of similar organizations throughout the
62 Western United States identified in the Financial Reserves Study, and understands the
63 applicability, similarities and differences of those policies and recommendations to Northern
64 Water; and

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66 WHEREAS, Northern Water is committed to continue providing high level C-BT Project reliability
67 and service that has come to be expected of the organization over its 80 years of existence, and
68 has a duty and responsibility to operate the C-BT Project, the Northern Water organization and
69 Northern Water facilities efficiently and effectively; and

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71 WHEREAS, Northern Water desires to retain strong creditworthiness as evidenced through
72 independent bond credit rating agency opinions, which are based partially on levels of reserves.

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74 NOW, THEREFORE, BE IT RESOLVED, that Northern Water recognizes and acknowledges
75 requirements to maintain certain levels of restricted reserves as specified within various existing
76 and future agreements, and this policy does not modify or supersede requirements to maintain
77 those levels of restricted reserves.

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79 BE IT FURTHER RESOLVED, that Northern Water will establish the following unrestricted reserves
80 and target funding levels to address the inherent risks and uncertainties in operating, maintaining,
81 protecting, replacing and bettering Northern Water, the C-BT Project and water supplies collected
82 and delivered by the C-BT Project.

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Reserve	Purpose	Target Funding
Operating Reserve	Covers potential interruptions in District fund revenue streams; used to smooth and stabilize assessments	One-hundred percent (twelve months) of anticipated District fund operating costs not including depreciation
Capital Reserve	Funds capital repair, replacement or betterment of the C-BT Project and Northern Water properties; funds other capital activities that may be undertaken by Northern Water	Minimum of one percent and up to two percent of the most recently estimated gross (non-depreciated) asset value of C-BT project and Northern Water properties
Fleet Replacement Reserve	Funds timely replacements, upgrades and additions to Northern Water’s fleet of vehicles, equipment and other mobile machinery	Fifty percent of District fund operations equipment accumulated depreciation
Exposure Reserve	Covers extraordinary, unforeseen events not otherwise covered by reserves or insurance	Risk-based economic quantification of potential exposures

85
 86 BE IT FURTHER RESOLVED, that Northern Water may designate one or more new capital reserves
 87 on an as-needed basis to partially or fully fund a specific known extraordinary repair, replacement,
 88 betterment or new capital improvement project. Initial and ongoing funding for these designated
 89 capital reserves may be transferred from the Capital Reserve in part, or in whole, as approved by
 90 the Board of Directors.

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 92 BE IT FURTHER RESOLVED that Northern Water will budget and fund from its annual operating
 93 budget equivalent to or exceeding five percent of the annual District fund operating budget for
 94 that year to fund reserves, unless financial conditions dictate otherwise.

95
 96 BE IT FURTHER RESOLVED that Northern Water will, from time to time, evaluate its cash accounts
 97 and transfer funds from those cash accounts to reserves as directed by the Board of Directors.
 98 Those transactions will include transfers into reserves that are directed by terms of other Northern
 99 Water policies, agreements or actions.

100
 101 BE IT FURTHER RESOLVED that Northern Water recognizes that not all reserve funds can be initially
 102 or remain fully funded at the specified target levels, and that some level of prioritization is required
 103 for initial and ongoing funding. In general, Northern Water desires that the operating and fleet
 104 reserves be initially fully funded and maintain the highest priority for funding as needed. The
 105 Board of Directors retains the discretion to modify reserve funding priorities and allocations, and
 106 to make transfers between reserve funds.

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108 BE IT FURTHER RESOLVED that Northern Water requires that any funds used from reserves be
109 appropriated by the Board of Directors either through the annual budget and appropriation
110 process or through a supplemental appropriation.

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112 BE IT FURTHER RESOLVED that Northern Water will further study and evaluate the amount and
113 timing of revenues required to meeting the reserve target funding described in the table, including
114 performing a cost allocation study and a rate study update.