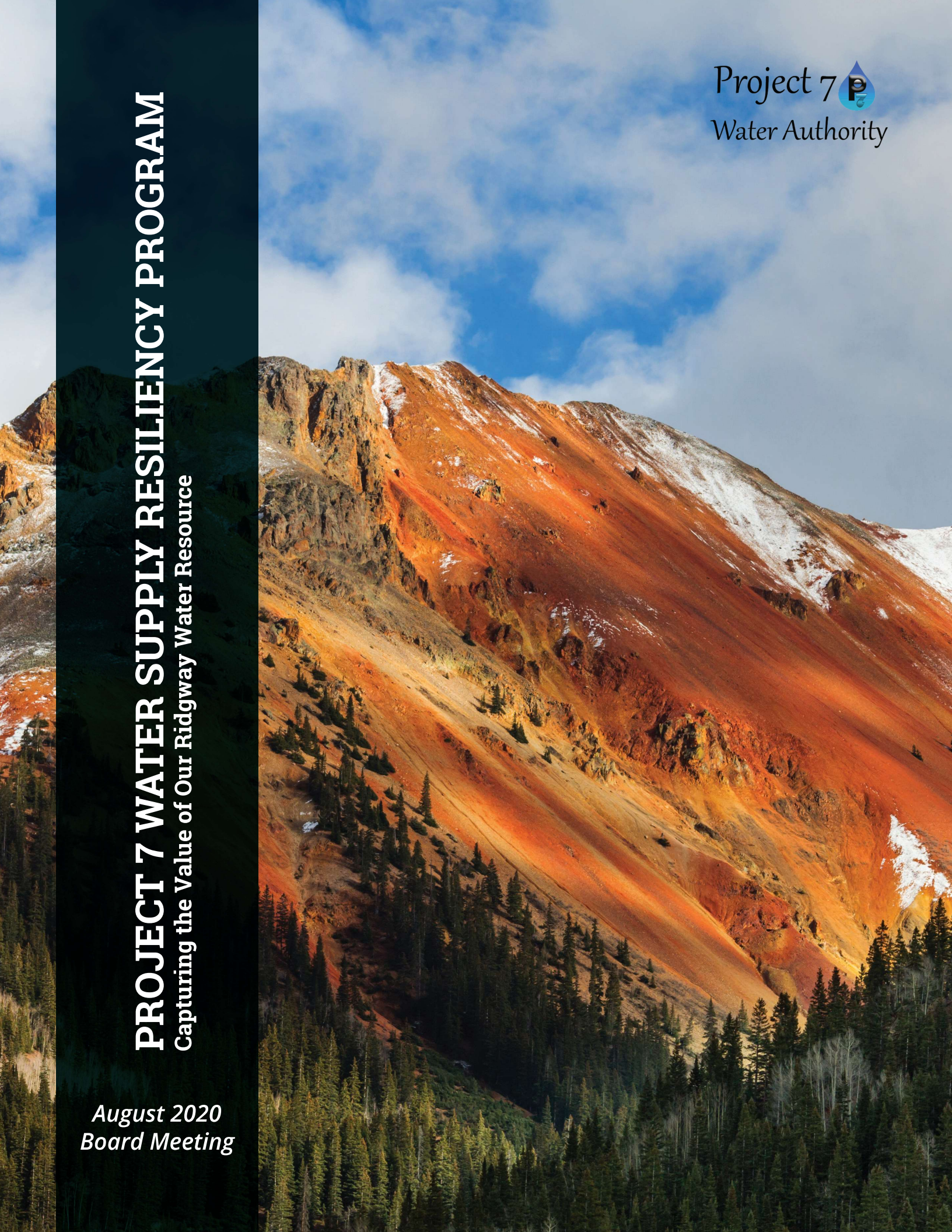


PROJECT 7 WATER SUPPLY RESILIENCY PROGRAM

Capturing the Value of Our Ridgway Water Resource

*August 2020
Board Meeting*



BRIEF SUMMARY

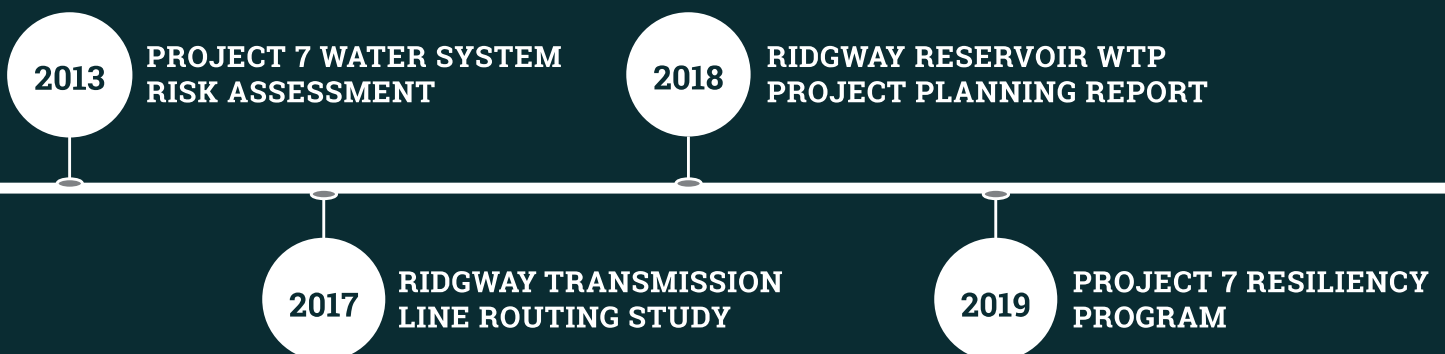
The **Project 7 Water Authority** is a unique cooperative effort among seven water entities to provide high quality potable water to the municipalities and rural areas of the Uncompahgre River Valley. Project 7 (P7) was founded in 1977 with a “one-for-all and all-for-one” mentality because local residents recognized the need for a regional approach to adequately manage their most precious resource, water.

The founders of P7 intended for two potable water sources to be developed, the Gunnison River via the Gunnison Tunnel, and the Uncompahgre River, via Ridgway Reservoir. At least two water treatment plants (WTPs) were envisioned to produce clean drinking water from these sources and reliably supply it to the communities of the Uncompahgre River Valley.

The **Project 7 Water Supply Resiliency Program** was initiated in 2018 to develop the Ridgway Reservoir water resource and provide P7 with a second water supply to reduce risks associated with wildfire, drought, or contamination in the Gunnison Supply. This program will provide full access to existing water rights in the Ridgway Reservoir and strengthen the dependability of the regional drinking water system as a whole.

“OUR FOUNDERS INVESTED IN US,
AND NOW IT'S OUR TIME
TO INVEST IN THE FUTURE.”

RESILIENCY PROGRAM MILESTONES



PROGRAM LEADERSHIP

In 2018, Project 7 partnered with Garver and assembled a team of experienced engineers, financial experts, and coalition builders to set the program up for success. In 2019, the program team met with every P7 voting member to explore common opportunities, challenges, and values. Through these discussions, we identified the shared values that tie our communities together and gave the Water Resiliency Program the greenlight to move forward.



NEXT STEPS

1

BOARD FEEDBACK ON RESILIENCY & RATE GOALS

- Show commitment to the Resiliency Program by approving a 2021 revenue increase
 - ◆ We suggest 21% based on our planning scenarios
- Further discussion at the October Board and direction by end of 2020

2

PRELIMINARY DESIGN

- 4 - 9 months, depending on level of effort
- Identify site specific permitting & piloting needs to more accurately define risk & value
- Establish delivery methods
- Define grant & loan opportunities to reduce overall cost

3

INITIATE FINAL DESIGN

- Formal board action
- 4th quarter 2021 or by start of 2022

2020

RAW WATER ALIGNMENT & ROUTING STUDY

2020
2021

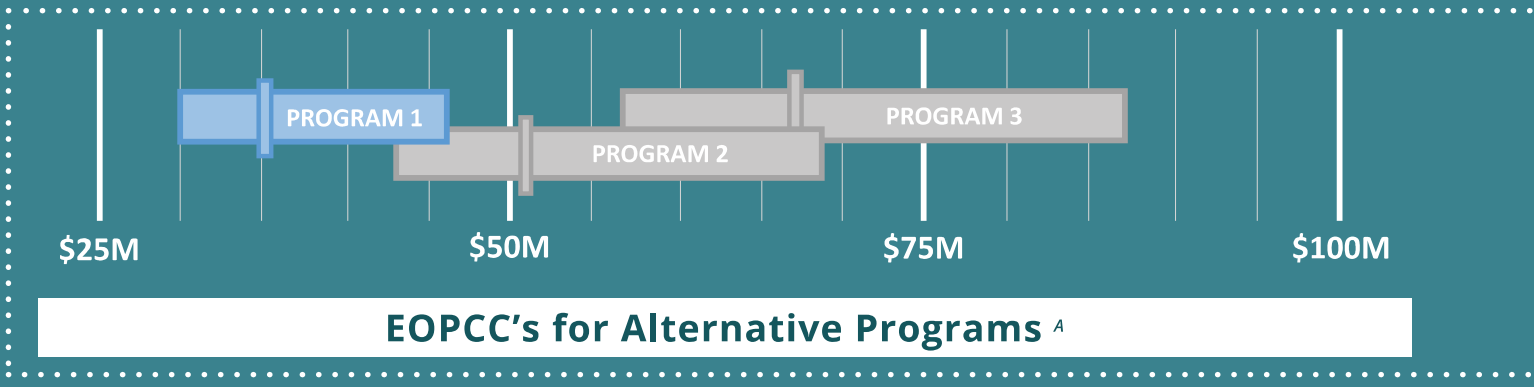
FINANCIAL ANALYSIS & GRANT/LOAN ENGAGEMENT

2020

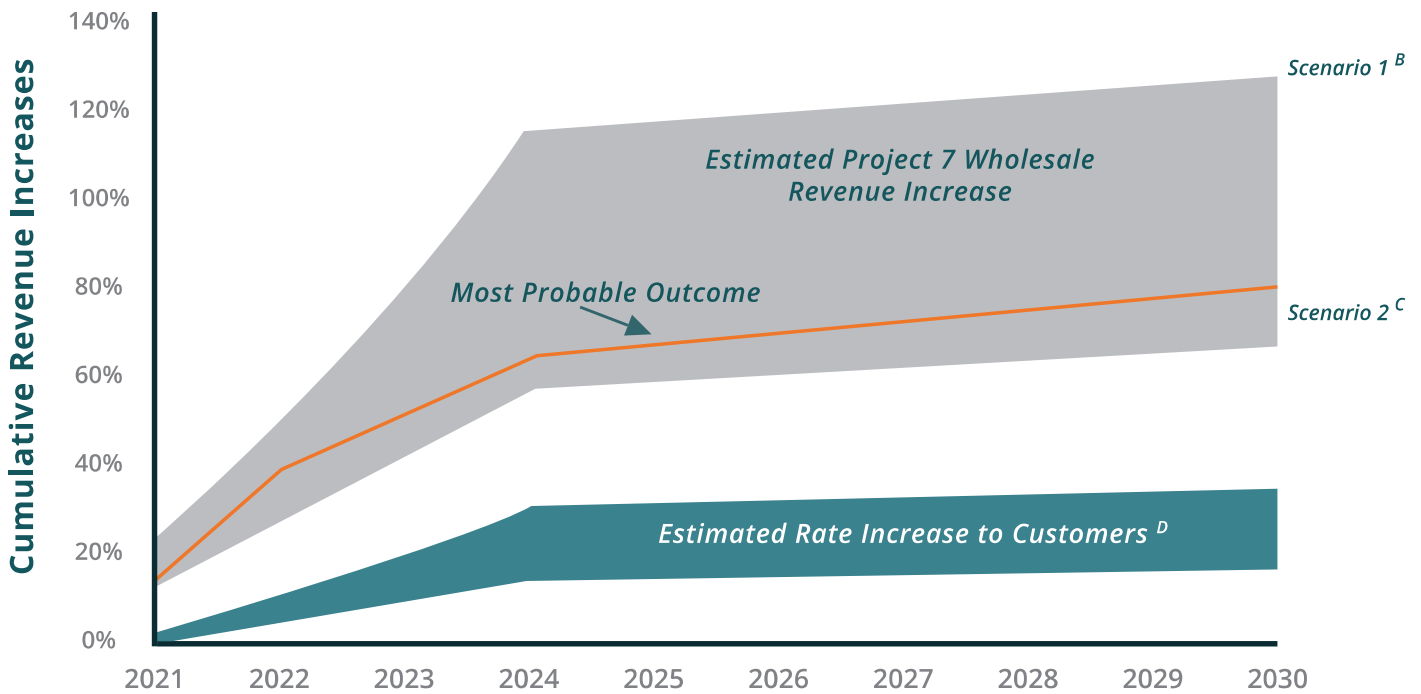
FORD SITE ACQUISITION RIVER BANK STUDY

2021

WTP TREATMENT PROCESS & FINALIZATION



Range of Possible Revenue Increases for Different Planning Scenarios

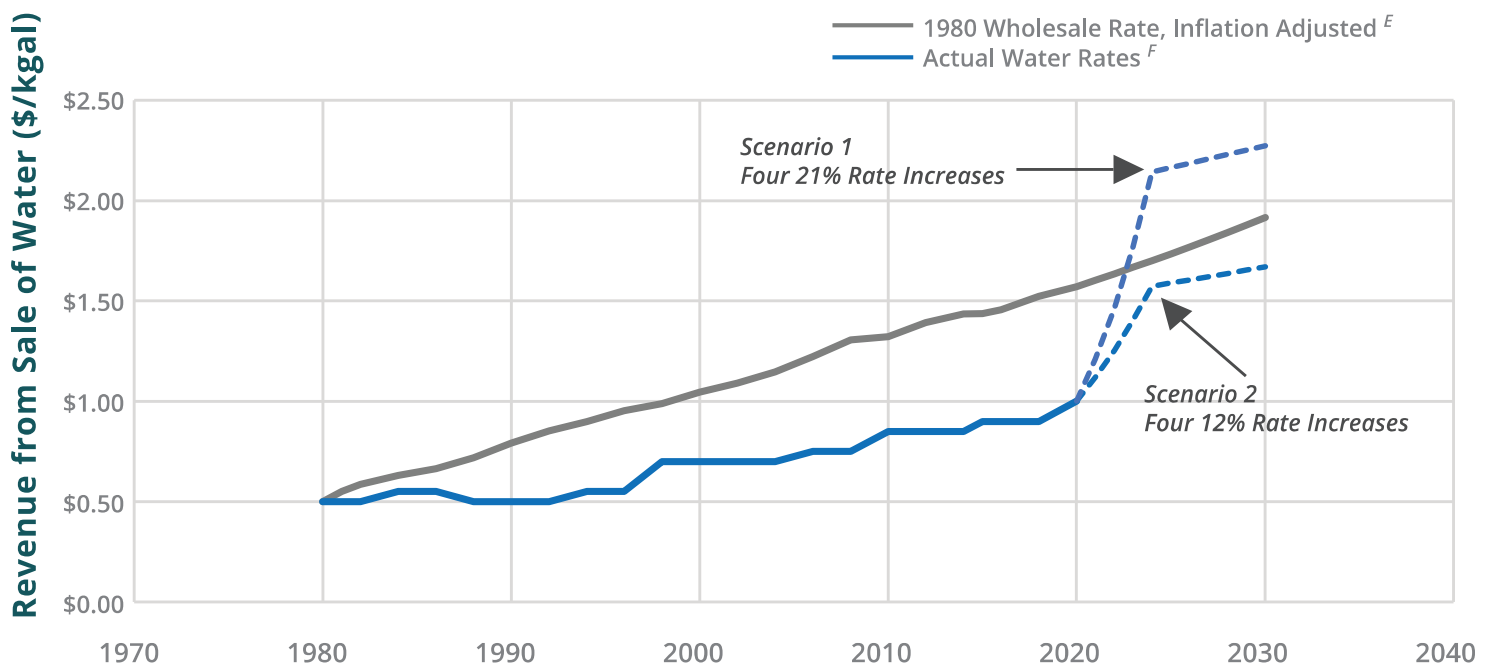


Actual project cost will vary depending on how successful our team is at capitalizing on innovative funding opportunities. This figure shows the range of revenue increases needed to fund the Ridgway WTP project and the orange line represents our most probable outcome, based on our experience with available grants and loans. To safely prepare we must plan for the highest cost outcome and the least desirable funding scenario. This is Scenario 1, and it requires four 21% revenue increases. We've also estimated the costs potentially passed on to actual customer accounts based on available 2020 budgetary information, and these range roughly between 20% and 40%, in total.

^A Program 1: Current Concept at Ford Site, River Bank Filtration, 2 MGD, Tie into Tri-County Distribution;
 Program 2: Spud Hill Site, Raw Water Transmission Line, 4 MGD, New Transmission Line around Montrose;
 Program 3: Spud Hill Site, Raw Water Transmission Line, 4 MGD, New 26 Mile Transmission Line, Water Softening.
^B Assumes \$45M in project costs, a 20-year loan at 2.5% interest, and requires a 128% cumulative revenue increase.
^C Assumes \$41M in project costs, a \$3M grant, a 30-year loan at 2% interest, and a 67% cumulative revenue increase.

Our project team has been working diligently to evaluate cost-saving engineering alternatives that include phased buildout capacities, alternative raw water conveyance methods, and WTP relocation in order to maximize the use of existing infrastructure. Alternatives were combined into Programs and an “Engineer’s Opinion of Probable Construction Costs” (EOPCC) was developed for each Program. The current Ridgway WTP concept is based on Program 1, but past concepts have resembled Programs 2 and 3. Our efforts have yielded real benefits and reduced probable construction costs by approximately \$35M from earlier concepts.

Project 7 Water Rates (Actual vs. 1980 Inflation Adjusted)



After revenue increases are implemented, P7’s revenues from water will increase to match the inflation adjusted value of that same water in 1980, when P7 first opened its taps. This will restore P7’s purchasing power to what was originally intended in 1980. Depending on the Ridgway WTP’s progression, the actual revenue increases needed will fall in between Scenarios 1 and 2. P7 has supported economic progress in the Uncompahgre River Valley since 1980, and now it’s time for our communities to support P7 and reaffirm the value of the safe drinking water produced by Project 7.

^D Customer rate increase estimate assumes the cost P7 incurs to treat water accounted for 30% of annual operating expenses in 2020.

^E Both scenarios assume 1% annual rate increases from 2025 - 2030.

^F Inflation adjusted rates assume an average 2% annual rate of inflation from 2021 - 2030.

PROJECT 7 RESILIENCY PROGRAM

Q & A

1

WHAT IS PROJECT 7 & HOW DOES A WHOLESALE WATER RATE INCREASE IMPACT ME?

Project 7 (P7) is the wholesale water provider that supplies Montrose, Delta, Olathe, Tri-County, Menoken, and Chipeta with affordable and safe drinking water. These communities pay P7 to treat their water instead of operating their own water treatment plants, allowing them to benefit from an economy of scale and enjoy region-wide water security.

2

WILL THIS PROJECT BENEFIT SOME MORE THAN OTHERS?

Yes, but past investments in P7 haven't yielded unequal benefits across the region too. The original P7 water plant and transmission line primarily benefited northern and eastern portions of P7's service area. The southern service areas have derived less value from these investments, while still paying their fair share. P7 operates on a "one-for-all and all-for-one" basis; it's time for our communities to reaffirm this shared value.

3

IF OUR WATER SUPPLY IS SECURE, WHY DO WE NEED THIS PROJECT?

Our communities need to be prepared for emergencies and water supply interruptions so that we can sustain our water supply and economy in difficult times. This project will reduce supply interruptions due to tunnel failure, drought, wildfire, and other accidents. This will also allow P7 and its member entities to directly access their Uncompahgre River water rights instead of relying on trades and exchanges.

4

HOW WILL WE DEFINE THIS PROJECT AS A SUCCESS?

In 2019, program leadership met with P7 voting members to explore common threads that hold us together. The following definitions of success were identified:

- **RETURN ON INVESTMENT:** P7 provides rate stability and an economy of scale across the region.
- **COST-EFFECTIVE:** This project will leverage smart construction phasing, flexible designs, and innovative financing options to optimize our investment.
- **LONG-TERM:** Investments must complement the long-term plan because, "twenty years from now this will be a bump in the road, but a water shortage is remembered forever."
- **SHOWING PROGRESS:** P7 and its members wish to see continued and incremental progress based on a solid implementation plan for design, construction, and financing.

We understand that with a project of this complexity there are some questions you may be considering, particularly the impact of rate increases and how this project will benefit you and your community. The following Q&A details responses to some common questions associated with a project like this.

5

WILL RATES INCREASE DUE TO THIS PROJECT? IF SO, WHY?

We anticipate that the price P7 charges for treating water (a.k.a. wholesale water rates) will increase between 12% and 21% for the next 4 years, followed by annual increases to match inflation. Each of P7's member entities are public water systems responsible for purchasing drinking water from P7 and safely conveying it to the customer. Each P7 member entity will decide how much of this cost they'll pass on to their communities via customer rate increases, which will vary.

6

WHAT IS THE DIFFERENCE BETWEEN THE WATER RATES OUR COMMUNITIES PAY AT THE TAP AND P7'S WHOLESALE WATER RATES?

Providing safe drinking water from P7 is only a portion of overall operating expenses for member entities. That is because each member must also maintain a local distribution system and ensure compliance with state and federal regulations governing public water systems. Based on available budget information, wholesale water revenues may account for 20% to 30% of annual expenses for some entities. This means that a 100% increase in P7 wholesale rates corresponds to a 20% to 30% increase in their operating expenses, which may or may not be passed on to the customer in the form of rate increases.

7

THAT ALL SOUNDS OKAY, BUT I'M STILL WORRIED ABOUT THE PROJECT RATE INCREASES. HOW DO OUR CURRENT RATES COMPARE TO OTHERS IN WESTERN CO?

In 2020, Eagle River Water and Sanitation District published a peer rate survey that included many Western CO communities. We've added additional rate information from our database and analyzed it to understand how P7's member entities' rates compare. Currently, the average water rate (based on a single-family equivalent (SFE) of 8,000 gallons) is \$38.79, which is the seventh cheapest rate of the 27 systems evaluated. Predicting how your future rates will compare is more difficult, because these peer systems may also raise their rates over the next 10 years to fund infrastructure investments. If we compare our estimate of P7's member entity rates (\$51.10 per SFE), we see that these proposed rates would rank 18th out of 27 systems today, not bad!