

**LA PLATA ARCHULETA
WATER DISTRICT**

SERVICE PLAN

LA PLATA COUNTY
COLORADO

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LA PLATA ARCHULETA WATER DISTRICT

La Plata County, Colorado

SERVICE PLAN

I. INTRODUCTION

This Service Plan (the “Service Plan”) is for a new special district to be organized pursuant to Article 1 of Title 32, C.R.S. (the “Special District Act”) in La Plata County to be named the LA PLATA ARCHULETA WATER DISTRICT (the “District”). The District will finance, construct, operate and maintain a public water system for an area in La Plata County and Archuleta County.

The purpose of this Service Plan is to establish a public entity that can construct, finance, participate in Intergovernmental Agreements and provide for operations for the essential, reliable and safe potable public water and fire protection facilities and services that will serve the properties within the initial and potential service areas in the southeast portion of La Plata County and, possibly in the future, the southwest portion of Archuleta County. Without the District, the financing would be more expensive than necessary and the cohesive development of the public water system as well as the ongoing operation and maintenance would be less certain.

II. THE DEVELOPMENT AND PREPARATION OF THE PLAN

The proposed District is being formed at the request of the La Plata–Archuleta Water District Task Force, a citizens group formed to encourage the development of a public potable water system to serve an area primarily in the southeast portion of La Plata County. The initial and potential service areas are further described in this Service Plan. Present water supply in the area is by individual or community wells. Many property owners in the area must haul water for domestic use because they have no viable well supply or the quality of the water is less than desirable. The District would provide a reliable and safe supply of water that would address these issues, and would also provide a reliable source of water for fire protection, benefiting all property in the District’s service area.

This plan has been prepared by a number of consultants, including Special District organization and management consultant R.S. Wells, LLC, 6399 Fiddler’s Green Cir., Suite 102, Greenwood Village, CO (Attention: Wayne Monson 303.779.4525); Special District legal advisor Collins Cockrel & Cole, P.C., 390 Union Blvd., Suite 400, Denver, CO 80228-1556 (Attention: David A. Greher, 303.986.1551); engineering consultant Harris Water Engineering, Inc., 954 East Second Avenue, Durango, CO 81301 (Attention: Steve Harris, 970.259.5322); and financing advisor Hanifen, Imhoff Division

of Stifel, Nicolaus & Company, Inc., 1125 17th. Street, Suite 1600, Denver, CO 80202 (Attention: Lester A. Willson, 303.291.5368).

III. GENERAL OVERVIEW.

This Service Plan is for a Title 32 special district proposed to be organized to construct, acquire, install, finance, operate and maintain a public water system for an area consisting primarily of rural residential users currently being served by individual relatively shallow wells or small community systems served by relatively shallow wells in La Plata and Archuleta Counties (the “Project”). The Service Area (the jurisdictional area which may legally be served, as defined below) of the District will consist of the area within the initial District boundaries as depicted on the attached Exhibit A (also referred to as the “Initial Service Area”) and the potential service area as depicted on the attached Exhibit B (the “Potential Service Area” and together with the Initial Service Area, the “Service Area”). The Service Area is described in greater detail in Section VII, Boundaries. The primary purpose of the proposed District is to provide public improvements for the Service Area, which shall be retained by the District for the use and benefit of the District’s inhabitants, constituents, taxpayers, visitors and the people of Colorado (the “State”). This Service Plan addresses the improvements which are expected to be provided by the District and demonstrates how the District will provide for and finance those proposed public improvements in a financially feasible manner.

Many properties in the Service Area do not have the availability of a viable well or the quality of the water is less than desirable requiring users to haul water for domestic purposes. This Service Plan addresses the improvements which are expected to be provided by the District. Without the District, the financing would be more expensive than necessary and the cohesive development of the water system to serve the area as well as the ongoing operation and maintenance would be less certain.

The Service Area also includes several small scale commercial properties and a limited number of industrial users. These properties and their owners will also benefit from the District’s provision of a reliable and safe water supply for their employees, agents and visitors. In addition, the District will provide a reliable water supply that may be used for fire protection to the benefit of such properties and their owners. Finally, because the District’s system will allow many property owners to discontinue use of their water wells for consumption, regulations that establish proximity restrictions on owners of mineral interests (including oil and gas leaseholds and lands) will no longer be applicable to such “abandoned” wells.

The Service Area of the District is located generally south of Vallecito Reservoir to the southern boundary of La Plata and Archuleta Counties and east of the City of Durango to the westerly portion of Archuleta County. The District is anticipated to initially consist of approximately 400 square miles with an estimated population of 9,720 (4,000 residential taps, Exhibit E x 2.43 persons per residential household in La Plata

County, 2000 Census). Exhibit B contains a map showing the approximate initial boundaries of the District (the Initial Service Area) and the Potential Service Area.

The public improvements to be provided by the District include general water distribution system facilities. The system is expected to be constructed in phases, as allowed by the District's financial structure and as determined by the Board. As described later in Section XI of the Service Plan, the District's Board of Directors (the "Board") may pursue an initial debt obligation for the Initial Infrastructure Phase. Each consecutive phase is anticipated to be financed by the capital improvement funding program as described in Sections XI(A) and XI(F). A phase will generally be the construction allowed each construction season by the capital improvement funding program or an area that could geographically be considered a "phase", but may require one or more construction seasons to be complete.

The "Initial Infrastructure Phase" is expected to include, at a location to be determined by the Board, a river diversion (or extraction gallery), a treatment plant, a finished water storage reservoir (tank), a 12" main line/distribution line, and all necessary pumps, valves, and appurtenances. Consecutive phases are expected to expand the system throughout the Service Area and may consist of distribution pipelines, additional storage tanks, water loading stations, pumps, valves, and appurtenances. Phase completion will generally be the completed construction of distribution system facilities ready to deliver water.

The District's Service Area is quite large and each new phase location will be decided on by the Board.

A. District Structure

This Service Plan is submitted in accordance with Part 2 of the Special District Act. It defines the powers and authorities of, as well as the limitations and restrictions on, the La Plata Archuleta Water District.

The District will be governed by a five member Board, which will be elected by the District's eligible voters, as described further in Section III(C). The District will be responsible for financing and managing the construction and operation of facilities and improvements needed for a potable public water and fire protection system. The water supply to serve the District will come from one or more of the water supply sources as described in Section X, Potential Water Supply Sources. The District may secure long-term debt to construct the Initial Infrastructure Phase to serve a portion of the Service Area, subject to Board and voter approvals. Future construction and development of the system are expected to be accomplished from annual capital improvement revenues.

There are several existing water systems within the Service Area of the proposed District, discussed in Section VIII.

There are municipal systems within or adjacent to the proposed District including specifically the Bayfield Service Area (“BSA”) and the Bayfield Potential Service Area (“BPSA”) shown on Exhibit B. The areas served by these municipal systems are not included within the District boundaries. Service requirements to these areas are further discussed in Section VII.

Other areas adjacent to the proposed District boundaries are also included in the Potential Service Area. These areas may be served by the proposed District upon petition by the property owners at the discretion of the Board.

Development of the District system is expected to proceed in several phases, each of which would require the extension of public services and facilities. The district structure should assure that the construction and operation of each phase of public facilities will be primarily administered by a single board of directors consistent with a long-term construction and operations program. Use of the District as the entity responsible for construction of each phase of improvements and for management of operations will facilitate a fully integrated public infrastructure improvement system and a well-planned financing effort through all phases of construction and will assist in assuring coordinated extension of services. All development projections are, of course, dependent upon market activity, governmental regulation, and other factors over which there may be little or no control.

The powers of the District will be exercised by the Board to the extent necessary to provide the services contemplated in this Service Plan. The foregoing improvements and services, along with all other activities permitted by law, will be undertaken in accordance with, and pursuant to, the procedures and conditions contained in the Special District Act, other applicable State laws, and this Service Plan, as any or all of the same may be amended from time to time.

The District shall not provide water service to property that is not a legal lot of record in accordance with La Plata County Land Use Regulations. Water service provided by the District shall comply with La Plata County Land Use Regulations, including adopted La Plata County Land Use plans, for the users of the property including restricting the water service to the allowed Land Use density. The District will not provide water service to new subdivision or commercial development in areas of La Plata County not covered by a La Plata County Land Use Plan, provided, however, that the District may provide water service to existing legal lots of record in areas of La Plata County not covered by a La Plata County Land Use Plan.

Exhibit B provides a map showing the Service Area. The District will initially contain approximately 400 square miles; a legal description of the property within the District’s initial boundaries is attached as Exhibit A. The legal description acknowledges properties that have requested exclusion from the District. Such properties remain within the Potential Service Area. The boundaries of the District may change through future

inclusions and exclusions within the Initial and Potential Service Areas. Except as to the provisions regarding the BSA and BPSA herein, the Board will have the authority to approve inclusions and exclusions within the Service Area in accordance with the terms of Colorado law without an amendment to the Service Plan.

B. Existing Services and Districts

There are currently no other entities in existence in the Service Area which have the ability and/or desire to undertake the design, financing and construction of improvements needed for the potable water and fire protection system to serve the area. It is not feasible or practicable for La Plata County to provide the necessary services and facilities contained in this Service Plan for the Service Area. Consequently, use of the District is deemed necessary for the provision of these public improvements to the Service Area.

The District shall not compel any property owner with a constructed well at the time water service is available to the property, to connect to the water system. This commitment is intended to waive any provisions of Section 32-1-1006(1)(a)(I), C.R.S., that may otherwise require the owner of premises within the boundaries of the District to connect to the District's facilities if a District water line is within four hundred feet of such premises. Also, property owners who connect to the water system for in-house usage may continue to use any well(s) existing at the time of the connection for other than in-house purposes to the extent allowed by the Well Permit and other laws and subject to the well not being cross connected to the District's water system.

C. General Financial Information and Assumptions

The 2005 certified assessed valuation of all Taxable Property within the initial District is approximately \$984,000,000. As used herein, "Taxable Property" refers to all real and personal property subject to ad valorem taxes of the District.

The District will construct and finance the Initial Infrastructure Phase of the public potable water and fire protection system with financing to occur through an expected initial issue of approximately \$18,000,000 in general obligation debt. Subsequent construction consisting of additional or expanded treatment and pumping, additional treated water storage and additional transmission lines is to be accomplished on an annual basis over a projected 15 to 18 year time period as part of the ongoing annual capital improvement program funded through mill levy revenues, fees, charges and other revenues of the District. See Section XI for a description of the District's debt limitations.

The anticipated costs of improvements are contained in Exhibit D. The District may obtain financing for the capital improvements needed for the water system through the issuance of general obligation bonds or other debt instruments. General obligation

debt may be payable from revenues derived from ad valorem property taxes on Taxable Property and from other revenue sources, including tap fees. The preliminary financial forecast for the District is contained in Exhibit E to this Service Plan. This Financial Plan demonstrates one method which might be used by the District to finance the cost of infrastructure. At the time bonds or other debt instruments are proposed to be issued, alternative financial plans may be employed and may be utilized by the District.

The Financial Plan demonstrates that the cost of public infrastructure described herein can be provided with reasonable mill levies. The information contained herein depicting costs of infrastructure and operations and the projected schedule of debt issuance will not constitute legal limits on the District; provided, however, that the District may not issue bonds which are not in compliance with the debt limit of this Service Plan, voter authorization, and the bond registration and issuance requirements of Colorado law. The risks of development and the responsibility for repayment of debt issued for the District will be borne solely by the District and its taxpayers and system users, and will not become the responsibility, in any degree, of La Plata County or any other governmental entity.

D. Election of Directors

Five directors will be elected by the eligible electors of the District to alternating four year terms as provided by State law. Directors will be elected from director districts to assure that the directors represent a geographical distribution within the Service Area, but in accordance with State law, each of the directors shall be elected by all of the voters within the entire district. Director district boundaries will be modified from time to time to maintain approximately the same number of electors in each director district as required by State law. The initial director districts are illustrated on Exhibit C.

E. Modification of Service Plan

This Service Plan has been designed with sufficient flexibility to enable the District to provide required services and facilities for the Service Area under evolving circumstances without the need for numerous amendments. While the assumptions upon which this Service Plan are generally based are reflective of current zoning for the property within the Service Area, the cost estimates and Financial Plan are sufficiently flexible to enable the District to provide necessary services and facilities without the need to amend this Service Plan as zoning changes. Modification of the general types of facilities, and changes in proposed configurations, locations, or dimensions of various facilities and improvements shall be permitted to accommodate development and service needs as the system develops. The Service Area of the District contemplates the Initial Service Area and the Potential Service Area outlined in the attached Exhibit B. Inclusions of property from the Potential Service Area shall be permitted without the need of an amendment to the Service Plan.

IV. GENERAL DESCRIPTION OF FACILITIES, IMPROVEMENTS AND SERVICES TO BE PROVIDED

The District has power and authority to provide the services and facilities described in this Section both within and outside its boundaries in accordance with law. The powers and authorities of the District may be further allocated and further refined in Intergovernmental Agreements (“IGA’s”) with other public and governmental entities, including other special districts. For purposes of the Special District Act, the District’s execution of any IGA’s shall not constitute an amendment to this Service Plan. They will, however, constitute binding agreements between the parties regarding implementation of the powers contained in this Service Plan.

The District shall have authority to provide the design, financing, acquisition, construction, relocation, completion, installation and/or operation and maintenance of a complete potable and fire protection local water supply, storage, transmission, and distribution system for domestic and other public or private purposes, which may include, but shall not be limited to, water rights, water supply, treatment, wells, transmission lines, distribution mains and laterals, fire hydrants, irrigation facilities, pumping facilities, storage facilities, water loading stations, reservoirs, land and easements, and all necessary, incidental, and appurtenant facilities, together with extensions of and improvements to said system within and without the boundaries of the District. Prior to the installation of fire hydrants, the District will consult with the appropriate fire district.

Prior to the delivery of domestic water to any property, the District shall secure no less than 100 acre-feet of reservoir storage held either by the District or through an agreement with a third party, or enter into some other arrangement, which other arrangement would be reasonably acceptable to the City of Durango. The Board shall continually evaluate the need for adequate storage as the water system expands.

Upon approval of this Service Plan, the District will continue to develop and refine cost estimates contained herein and prepare for bond issues. Reasonable modifications of public facilities and cost estimates shall be permitted. Updated information, if any, shall be provided to La Plata County in an annual report, upon request. All cost estimates will be inflated to then-current dollars at the time of bond issuance and construction. All construction cost estimates assume construction to applicable local, State or Federal requirements.

In addition to the powers enumerated above, the Board shall also have the following authority:

1. To amend this Service Plan as needed, subject to the provisions contained herein regarding the BSA and the BPSA and subject to the appropriate statutory procedures, including, by written notice to La Plata County and, possibly, Archuleta County pursuant to § 32-1-207, C.R.S. for notice of actions which the District believes

are permitted by this Service Plan but which may be unclear. In the event La Plata County (and, if relevant, Archuleta County) elects not to seek to enjoin any such activities under said statute, such election shall constitute agreement by such county that such activities are within the scope of this Service Plan. The District shall have the right to amend this Service Plan independent of participation of other districts; provided, that the District shall not be permitted to amend those portions of this Service Plan which affect, impair, or impinge upon the rights or powers of other districts without such districts' consent; and

2. To forego, reschedule, or restructure the financing and construction of certain improvements and facilities, in order better to accommodate the pace of growth, resource availability, and potential inclusions of property within the District, or if the development of the improvements and facilities would best be performed by another entity; and

3. To provide all such additional services and exercise all such powers as are expressly or impliedly granted by Colorado law, and which the District is required to provide or exercise or, in its discretion, choose to provide or exercise; and

4. To exercise all necessary and implied powers under the Special District Act in the reasonable discretion of the Board.

V. PURPOSE OF THE DISTRICT

It is intended that the District will provide certain essential public-purpose facilities for the use and benefit of its anticipated inhabitants and taxpayers. These persons include employees, tenants, residents, visitors and owners of real property located within the boundaries of the District as currently contemplated and as the same may be changed through the inclusion of additional territory and exclusion of territory, as well as the people of La Plata County, Archuleta County and the State.

It is not feasible or practical for La Plata County itself to provide the area with the extensive public improvements and facilities needed to serve the Service Area at this time. The District is therefore necessary to provide the desired potable water and fire protection facilities and services.

The District is expected to finance the Initial Infrastructure Phase within the boundaries of the District as soon as practical following the District's organization. Additional facilities are expected to be provided annually from its operations and maintenance mill levy until the system is complete, as discussed in Section XI. Upon completion of the system throughout the Service Area, the capital improvement component of the operations and maintenance mill levy is expected to discontinue.

The District acknowledges the need and its intent to cooperate with La Plata County to serve and promote the health, safety, prosperity, security and general welfare of its inhabitants, as well as the residents of the State.

VI. FORMATION OF SUBDISTRICTS

The La Plata Archuleta Water District may form one or more subdistricts as provided in the Special District Act to provide for the financing and operation of facilities or services that benefit a portion of the properties within the District. The formation of such subdistricts shall not be considered a material modification of this Service Plan. Subdistricts may be used where an area needs service sooner than the capital improvement program can respond and the electors within the subdistrict are willing to impose an additional tax levy on themselves to provide facilities sooner.

VII. BOUNDARIES

A. Service Area

The Service Area of the District is generally described as being south of Vallecito Reservoir to the southern boundary of La Plata and Archuleta Counties and east of the City of Durango to the westerly portion of Archuleta County. The District is initially anticipated to consist of approximately 400 square miles as described in Exhibit A with an estimated population of 9,720 (4,000 residential taps, Exhibit E x 2.43 persons per residential household in La Plata County, 2000 Census). Exhibit B contains a map showing the Service Area boundaries of the District (comprised of the Initial Service Area and the Potential Service Area). At the time of formation, only the properties within the initial District boundaries (the Initial Service Area) will comprise the District and be subject to the ad valorem taxes certified by the District.

The Potential Service Area defined in this Service Plan represents areas which may be included into the District over time and served with potable water, which may also be used for fire protection. The inclusion of the properties within the Potential Service Area may occur upon petition of property owners within the area as provided by the Special District Act without an amendment to this Service Plan. Any Taxable Property within the Potential Service Area will not be subject to the ad valorem tax certified by the District unless and until it is included in the District pursuant to this Service Plan and the procedures of the Special District Act.

As introduced in Section III(A), there are municipal systems within or adjacent to the proposed District including, specifically, the Bayfield Service Area (“BSA”) and the Bayfield Potential Service Area (“BPSA”). The areas served by these municipal systems are not included within the District boundaries. Areas within the BSA and the BPSA may be included into the District and thereby become subject to the ad valorem tax of the

District only after compliance with the following procedures and compliance with the procedures provided in State law.

The District shall not extend service into these municipal service areas without the consent of the municipality. Areas adjacent to the municipal systems are included in the Potential Service Area of the proposed District including specifically the BPSA shown on Exhibit B. These potential service areas except the BPSA may be served by the proposed District upon petition from the property owners if the municipalities are not providing service in those areas.

The area within the BPSA may be included in the District in the future without an amendment to the Service Plan, but only after completing the following procedures. In the event that the District receives a petition for inclusion of any property within the BPSA into the District, then the District shall provide written notice of the receipt of that petition to La Plata County and to the Town of Bayfield. No property within the BPSA shall be included within the District without the prior approval of the Board of County Commissioners of La Plata County. In addition to any other approval required by the provisions of the Service Plan or of State law, the Town of Bayfield shall have a period of nine months following receipt of the above described written notice from the District to determine whether the Town desires to provide water service to the property described in the inclusion petition within a reasonable time on a basis comparable to the service proposed by the District. If the Town provides notice to the District and to the property owner that it desires to provide service to the property on that basis, then the process to include the property in the District shall terminate. Otherwise, the property may be included into the District following the approval from La Plata County and upon completion of all other requirements of State law.

In any case, as a condition precedent to the inclusion of any property within the BSA or the BPSA into the District, the owner of the property to be included shall be required to execute an agreement in a form approved by the Town, whereby the owner agrees to apply for or consent to annexation of the included property into the Town of Bayfield in the future at such time as the property or any portion thereof becomes eligible for annexation under the provisions of State law. A memorandum of that agreement setting forth the names of the owners and the legal description of the property shall be recorded in the office of the La Plata County Clerk and Recorder.

The improvements, which are described in this Service Plan, are necessary and applicable for the entirety of the District Service Area. The Initial Service Area is entirely within the boundaries of La Plata County. Portions of the Potential Service Area extend into Archuleta County. Areas within the Potential Service Area may be included upon petition from property owners at the discretion of the Board.

B. Changes in Boundaries

The Service Area of the District is the Initial Service Area (the initial District boundaries) and the Potential Service Area of the District. It is anticipated that additional property, including Taxable Property, will be included within the District in the future. Minor inclusions or exclusions to accommodate correction to legal descriptions or modifications in survey data are permitted without an amendment to the Service Plan. The inclusion of property within the La Plata County portion of the Potential Service Area shall be permitted without an amendment or modification of this Service Plan as set forth herein. The inclusion of property within the Archuleta County portion of the Potential Service Area may be considered a material modification of the Service Plan under Section 32-1-207(1), C.R.S.; the District shall provide notice to La Plata County prior to including such property into the District. Areas outside of the Service Area and within La Plata County shall not be included into the District without the prior consent of the La Plata County Commissioners except as provided herein. Changes in boundaries shall be made only as permitted under the Special District Act and hereunder.

The “Service Area” (the jurisdictional area which may legally be served) of the District will consist of the entire area of the Initial Service Area and the Potential Service Area. The District will have the power to impose property taxes only on Taxable Property of the District after compliance with the procedures contained herein and the procedures of State law. The District shall be permitted to provide public services and facilities within the Service Area as defined herein, provided however that services shall be provided to any property within the BPSA only after compliance with the procedures contained in Section III(A).

VIII. RELATIONSHIP WITH OTHER LOCAL GOVERNMENTS

There are several existing water systems within the Service Area of the proposed district. Some of the systems are owned and operated by metropolitan districts and some are privately owned systems. The areas served by these systems are not included in the Initial Service Area. They are included in the Potential Service Area. The Van Den Berg and Rancho Florida Metropolitan Districts, specifically, are not located within the Initial Service Area, because they have requested to be included in the Potential Service Area. This arrangement provides several potential advantages to these systems.

1. As the system of the proposed District is developed, connections can be provided to permit emergency service for these existing systems.
2. The existing systems can purchase water from the proposed District through master meters and distribute the water throughout their systems.
3. The existing systems can petition to integrate into the proposed system either through inclusion or intergovernmental agreement.

There are municipal systems within or adjacent to the proposed District. The areas served by these municipal systems, specifically including the BSA and the BPSA are not included within the District boundaries. Areas adjacent to the municipal systems including the BPSA are included in the Potential Service Area of the proposed District. Areas within the BSA and the BPSA shall be included within the District only after compliance with the procedures contained in Section VII(A). These potential service areas (other than the BPSA) may be served by the proposed District upon petition from the property owners if the municipalities are not providing service in those areas. The District agrees to take all reasonable steps to cooperate with the municipalities regarding the design and construction of facilities to maximize the ability to integrate the water systems in the future.

IX. FACILITIES TO BE CONSTRUCTED

A. Type of Improvements

Upon formation, the proposed District plans to provide for the long term financing and acquisition, construction, installation and operation of a potable water and fire protection system both within and without the boundaries of the District to serve the residents, employees, visitors, and properties within the District particularly and the residents of the State in general.

An Opinion of Probable Costs is presented in Exhibit D. The following are estimated costs for the facilities to be provided including: engineering, construction management, overhead and a contingency to account for unforeseen expenses. Bond issuance expenses and capitalized interest are not included.

Cost of Initial Infrastructure Phase	\$15,048,000
Cost of Complete System	\$84,767,000

The Initial Infrastructure Phase is expected to include, at a location to be determined by the Board, a river diversion (or extraction gallery/ies) located on the Pine River, a treatment plant located near the gallery (treatment process contingent upon raw water quality), a finished water storage reservoir (tank), a 12” main line/distribution line, and all necessary pumps, valves and appurtenances. Consecutive phases are expected to expand the system throughout the Service Area and to consist of distribution pipeline, storage tanks (above ground steel tanks, generally), water loading stations, pumps, valves, fire hydrants, and appurtenance. Additional diversion structures and treatment facilities may be provided in future phases. The cost estimate is based upon 10” and 12” pipe along Hwy 160 and County Road 510 with 8” pipe serving all other locations. The cost of the system is based on installation of 8” pipelines or larger along all public roads (Federal, State, and County roads) within the District. As indicated on Exhibit E, the capital improvement portion of the operations and maintenance mill levy allows

approximately \$4,800,000 per year to be used for construction. As there are about 333 miles of public roads, about 23 miles of pipeline (with associated system facilities) can be constructed a year. Water loading stations may be installed at the end of each construction phase to serve properties in the District that are not yet served by the piped distribution system.

At this time, it is not known if the District will extend pipelines along private roads or into subdivisions. This pipeline extension policy will be decided by the Board. Prior to the installation of fire hydrants, the District will consult with the appropriate fire district.

The pipe sizes used in the cost estimates may be modified when final design and construction occurs to meet actual water supply needs for specific areas. The contingencies provided in the cost estimates are expected to be adequate to accommodate any increased cost associated with larger pipe sizes. To the extent allowed by law and the debt authorization approved by the eligible electors of the District, the Board shall have the authority to shift funds from one category of improvements to another so long as the debt limit approved by the electors is not exceeded. Notwithstanding anything to the contrary contained herein, the total cost of the improvements to be financed by long term debt by the District shall not exceed the amount authorized by this Service Plan and the District's electors.

B. La Plata County Construction Standards

The District will comply with all applicable La Plata County land use permitting requirements and construction standards, including La Plata County Code Chapter 74, Article II, Divisions 1, 2 and 5, Article III, and Chapter 82, Article I and Article II, Divisions 2 and 3 will be followed as they may apply. The District will comply with any and all other applicable La Plata County requirements and standards as all proposed improvements will be designed and constructed in accordance with the standards and specifications set forth by La Plata County in which the construction is located or other regulatory entities. Facilities constructed will remain the property of, and be maintained by, the District.

As described in Section III, the District distribution system facilities is expected to be constructed in phases. Each phase is to be designed and constructed according to standard engineering practices and a Class II Permit will be obtained for each phase prior to construction commencing for that phase, as required by La Plata County Code Chapter 82.

X. POTENTIAL WATER SUPPLY SOURCES

The raw water supply for the District will be obtained from one or more of several sources, some of which are known to be firm at the time of the Service Plan approval and

some of which are potential sources that may be available once the District is formed and official negotiations can be conducted and agreements formalized. The various water sources are described below.

The La Plata Archuleta Water District (LAPLAWD) Task Force has applied for water rights on rivers within or immediately adjacent to the proposed District. The Animas River water rights will provide a firm supply of water to the District.

Animas River Basin - The LAPLAWD Task Force filed for and was granted 15 cfs conditional water right on the Animas River and from the Florida River near the confluence with the Animas River. The right was awarded in Water Court Case No. 03CW102. The water may be diverted at any of three diversion locations and in connection with the decrees issued in Water Court Case No. 03CW103 and Case No. 03CW 119. The Animas River and the lower Florida River are not in “water critical” areas and water is available for appropriation and use at any time during the calendar year. Even in 2002, there was adequate water physically and legally available in the Animas River to provide up to 30 cfs.

Piedra River Basin - The LAPLAWD Task Force filed for and was granted 5 cfs conditional water right on the Piedra River just upstream from Navajo Reservoir. The right was awarded in Case No. 03CW103 and must be used in connection with Case No. 03CW102 and Case No. 03CW119. The Piedra River is not in a “water critical” area and water is available for appropriation. There are no flow measurements immediately upstream of Navajo Reservoir to verify the availability of water but there was likely to have been between 5 and 10 cfs of water physically and legally available in the Piedra River during 2002.

Pine River Basin - The LAPLAWD Task Force filed for and was granted 7.5 cfs conditional water right on the Pine River. The water may be diverted at either of two diversion locations and in connection with the decrees issued in Case No. 03CW102 and Case No. 03CW103. The Pine River below the Pine River Canal is not in a “water critical” area and water is available for appropriation. The available data indicates there was between 5 and 10 cfs of water physically and legally available in the lower Pine River in 2002.

Pine River Irrigation District - The Pine River Irrigation District (PRID) has been a long time supporter of the rural water system and continues to be committed to supplying water to the water system.

The PRID Board can allocate between irrigation and Leased Water within PRID, pursuant to Case No. 03CV300. The PRID Board can commit to at least 2,000 AF. The Court further determined that shareholders can voluntarily allow their water in PRID to be used for Leased Water inside or outside of PRID, pursuant to Section 37-42-135, C.R.S. The PRID “Voluntary Pool” has accumulated approximately 3,300 AF.

Animas-La Plata Project - In addition to the SUIT's share of the Animas-La Plata Project (ALP), the State of Colorado also has an option to obtain up to 5,280 acre-feet of depletion or approximately 10,600 acre-feet of supply from ALP. The State has until the end of construction to decide whether to accept the option. The District could potentially obtain a portion of this allocation, but again there is no need to initiate discussions until the District is formed.

The District has agreed not to use storage water rights in Emerald Lake as a source of water supply.

XI. FINANCIAL PLAN

The Financial Plan depicted in Exhibits D and E describes how the proposed facilities and services may be financed, including the estimated costs of organization, engineering services, legal services, administration services, proposed indebtedness and estimated interest rates and discounts, and other major expenses related to the organization and operation of the proposed District. The Financial Plan demonstrates that the incurrence of debt and the anticipated debt service, capital improvement funding and operational funding by the District will allow the District to discharge the proposed indebtedness on a reasonable basis. Fees shown in the Financing Plan include tap fees. The actual financial plan of the District will be decided by the Board only after the District is organized.

A. General Discussion

The provision of the Initial Infrastructure Phase by the District is expected to be primarily financed by the issuance of general obligation (GO) bonds by the District, secured by the ad valorem taxing authority of the District on Taxable Property and also by fees, charges and other legally available revenues of the District. The Financial Plan demonstrates the anticipated issuance of the debt and its repayment based on the existing and projected development in the District. The first bond issue will not occur until after the District is organized, and only if the District's voters approve issuance of debt at an election authorized by Article X, Section 20 of the Colorado Constitution ("TABOR") following the organizational election. The District's voters will also be asked to authorize the operations and maintenance mill levy at the first TABOR election following the organizational election. The construction of certain improvements in portions of the District may be provided by developers within the District, subject to subsequent acquisition by the District of the completed improvements and reimbursement to such developers of such construction costs or dedication of the improvements to the District without reimbursement, at the discretion of the Board.

New money general obligation bonds would mature not more than forty (40) years from the date of issuance, with the first maturity being not later than three (3) years from the date of their issuance. The proposed maximum voted annual interest rate is fifteen

percent (15%) and the maximum underwriter's discount is five percent (5%). The exact interest rates and discounts will be determined by the Board at the time the bonds are sold and will reflect market conditions at the time of sale. The District may also issue notes, certificates, debentures, or other multiple fiscal year obligations, which issuances shall be subject to the limitations set forth in this Service Plan, including the debt limits described herein.

It is proposed that a total maximum allowable principal amount of \$25,000,000 of bonds that are secured by ad valorem property taxes of the District for various purposes be submitted to the electors of the proposed District for their approval at a TABOR election following the organizational election. Subject to the foregoing limitation, the exact amount of debt authorization requested will be determined by the Board. Currently, approximately \$18,000,000 in bonded debt is anticipated, with the difference between the anticipated amount and maximum allowable amount intended to allow flexibility in scheduling, refinancing, refunding, costs of issuance and inflation. In no event shall the principal amount of the debt that is secured by ad valorem property taxes and are outstanding at any one time exceed the amount authorized by the Service Plan or the District's electors; provided that such limitations shall not apply to refunding such debt or obligations necessary to provide credit enhancement of such debt. The District's bonds will contain adequate call provisions to allow for the prior redemption or refinancing of bonds sold by the District.

It is expected that the Board will establish an annual capital improvement program to extend the system provided by the Initial Infrastructure Phase into the balance of the District. The capital improvement program will fund the construction phases, as these phases were described in Section III. The annual capital improvement funding program is expected to consist of the capital improvement portion of the operations and maintenance mill levy and other fees, charges and revenues of the District, including tap fees. Following completion of the system, the capital improvement component of the operations and maintenance mill levy will cease.

The District is expected to have a mill levy assessed on all Taxable Property as a primary source of revenue for repayment of debt service. The proponents of the organization of the District are comfortable with the reasonableness of the overlapping mill levies and the anticipated mill levy for the proposed District (as illustrated in Exhibit E). It is currently estimated that a total mill levy of Five (5) mills will produce revenue sufficient to support the annual capital improvement program, debt retirement and operating costs throughout the bond repayment period. It is anticipated that approximately 3.5 mills will be used for the annual capital improvement funding program, approximately 1 mill will be used for debt service and approximately 0.5 mills will be used for operations. The actual mill levies of the District will be requested by the Board and approved by the voters at the first TABOR election following the District's organization. It is anticipated that mill levy revenue will be the primary source of

operating revenue in the early years of the District and that revenue from water sales will be the primary source of operating revenue in later years when there are sufficient connectors to the District. Interest income through the reinvestment of District funds is expected to provide additional funds. These revenue sources together with the possible imposition of rates, tolls, penalties, fees and charges are expected to be sufficient to retire the proposed indebtedness. Increases in the mill levy and/or the imposition of additional rates, tolls, penalties, fees and charges may be necessary but are not anticipated.

The assumptions used in the Financial Plan are considered to be conservative in nature. The assessed value of the proposed District used in the Financial Plan is an average of \$984,000,000 annually. This figure is believed to allow for changes in assessed value from year to year resulting from the changes in assessed value of production from gas wells in the area. It is expected that the assessed value will exceed this number in most years, as this figure has not been adjusted for inflation, growth, construction or the increased number of oil and gas wells projected in the District. To the extent that the District's actual available revenues exceed those projected, the Board could accelerate the capital construction schedule to complete infrastructure sooner. Conversely, in those years when revenues are less than projected, the Board could undertake less infrastructure construction.

The figures contained herein depicting costs of infrastructure and operations will not constitute legal limits on the financial powers of the District; provided, however, that the District shall not be permitted to issue bonds which are not in compliance with the bond registration and issuance requirements of Colorado law.

B. Debt Limitation

The total general obligation debt limit for the District shall be as authorized by the electors of the District. The initial authorization is expected to be \$25,000,000 of general obligation debt and is expected to authorize the refunding of that debt. The debt limit is subject to the authorization of the District's voters at a TABOR election following the organizational election; it could be raised above \$25,000,000 only with the approval of the District's electors and an amendment to this Service Plan.

C. Revenue Bonds

The District shall have authority to issue revenue bonds as allowed by Colorado law. As provided in TABOR, revenue bonds issued by an enterprise of the District shall not be limited by the voted debt limit.

D. Availability of Service Fees

The District may assess reasonable fees against properties within the District (not including the Potential Service Area) that are otherwise tax exempt where the facilities and/or services provided by the District are available to the properties. These fees are intended to compensate the District for the cost of providing the facilities and/or services where development has not occurred and/or ad valorem tax revenue is not sufficient that the properties are paying an equitable share.

Several properties within the proposed district are a part of the Southern Ute Indian Reservation and are therefore tax exempt. Service may be provided to these properties and an availability of service fee (to be used for Debt Service only) assessed in lieu of the payment of ad valorem property tax as determined by the District.

E. Debt Summary

The Financial Plan shown in Exhibit E reflects the amount of debt anticipated to be incurred by the District to finance the completion, construction, acquisition and/or installation of the Initial Infrastructure Phase, including all costs and expenses related to the anticipated general obligation bond issuances. The amount of bonds sold will be based upon the final engineering estimates and/or actual construction contracts. Organizational costs, including legal fees, and capitalized engineering costs may be paid from the proceeds of bond issues. The interest rates as set forth in the Financial Plan are based upon the advice of potential underwriters for the District.

The Financial Plan projects the anticipated flow of funds and is based upon estimates of construction and projected needs for bond proceeds to finance the necessary Initial Infrastructure Phase. The District's engineer has evaluated the timing and cost estimate of the proposed District's improvements which are necessary to support the proposed annual capital improvement program as projected in the Financial Plan and has concurred with its assumptions. The Financial Plan sets forth a reasonable estimate of growth within the proposed District and allows the Board a measure of flexibility such that the proposed District need not incur debt in excess of what it needs. The Board may accelerate or defer the issuance of bonds or the construction of facilities as it deems necessary.

F. Capital Improvements

The Initial Infrastructure Phase, consisting of a water treatment plant, extraction gallery, pump station, treated water storage and a transmission line loop to serve a portion of the Service Area, are expected to be constructed using debt financing. Subsequent construction consisting of additional or expanded treatment and pumping, additional treated water storage and additional transmission lines are anticipated to be accomplished on an annual basis as part of the ongoing annual capital improvement program. The

annual capital improvement program is expected to be funded by the capital improvement funding program that includes the capital improvement portion of the District's mill levy and other fees and charges of the District, including tap fees. The Financial Plan shown in Exhibit E reflects the expected yearly revenue generated for the capital improvement funding program, as well as the expected yearly construction expenditures.

G. Operations

It is expected that the District will require operating funds to plan and cause the capital improvement plan to be constructed. Additional costs to the capital costs indicated herein are expected to include: the operation and maintenance of the improvements by the District and expenses related to the formation and operation of the District (such as reimbursement of organizational costs, legal, engineering, accounting and issuance costs of indebtedness, preparation of budgets, audits, elections, informational filings).

Annual administrative, operational and maintenance expenses will be established by the Board in its annual budgeting process. Any expenses associated with these items are expected to be fulfilled by the operations component of the operations and maintenance mill levy which shall be established from time to time by the Board (subject to prior voter authorization), together with appropriate rates, tolls, fees, penalties and charges. It is anticipated that cost of operations in the early years of the District will be paid from the operations component of the operations and maintenance mill levy, and that cost of operations in later years will be paid from fees and charges of the District. See Exhibit E for projected mill levies. If necessary, however, the proposed District reserves the right to supplement these revenues with additional revenue sources as permitted by the Special District Act. The District may use all or any portion of the operations and maintenance mill levy for payment of debt or capital construction, subject to State law.

H. Limits on Mill Levy Increases

There are constitutional limits on the District's ability, without voter approval, to increase its mill levies, including its operations and maintenance mill levy. These limits are primarily found in Article X, Section 20 of the Colorado Constitution ("TABOR") and Section 29-1-301, C.R.S.

I. Economic Viability

The Financial Plan (Exhibit E) illustrates the estimated income and expenses for the District presuming issuance of bonds or other debt by the District to fund construction of the Initial Infrastructure Phase and the annually funded capital improvement plan. The Financial Plan contained in this Service Plan demonstrates the economic viability of the District.

J. Enterprises

In the discretion of the Board using the procedures and criteria provided by TABOR and other State law, the District may establish one or more enterprises to manage, fund, and operate such facilities, services, and programs as may qualify for enterprise status. Such enterprises shall not be subject to any debt limitations provided in this Service Plan. To the extent allowed by law, any enterprise created by the District will remain under the control of the Board.

K. Security for Debt

The District will not pledge any La Plata County funds or assets (or that of any other governmental entity) for security for the indebtedness set forth in the financial plan of the District. Security for indebtedness of the District may be provided in any legally permissible manner and may include security provided by development entities or others.

L. Anticipated Development

The future development projections within the boundaries of the District are shown on Exhibit E.

M. Public Improvement Schedule

The District anticipates that initial construction of facilities will occur as soon as reasonably practical after formation of the District, as will be determined by the Board. Additional facilities are to be provided by the annually funded capital improvement program.

N. Risk Disclosure

The ability of the District to meet the projections upon which the Financial Plan is premised is subject to various risks and uncertainties, including but not necessarily limited to, actual development that occurs within the District's boundaries, market fluctuations affecting the assessed valuation of the property within the District, the sale of lots/construction of homes as might occur within the area and actual market valuation of property within the District's boundaries. Development in the District will be impacted by many factors including governmental policies regarding land development, the availability of utilities, construction costs, interest rates, competition from other developments and other political, legal and economic conditions.

XII. DISSOLUTION

In the event the District believes that the purposes for which the District was created have been accomplished, a public hearing shall be conducted before the La Plata County Commissioners to determine whether the District should be dissolved. Prior

written notice of such hearing shall be provided to the Board. The District agrees to file a petition in the appropriate District Court(s) for dissolution. In any event, such dissolution shall not occur until the District has provided for the payment or discharge of all of its outstanding indebtedness and other financial obligations, has completed construction and provision of all services and facilities contemplated herein and the provision of potable and fire protection water service to the entirety of the Service Area has been assumed by another responsible provider.

XIII. MODIFICATION OF SERVICE PLAN

Material modifications to this Service Plan shall be first approved by La Plata County. Material modifications shall include modifications of a basic or essential nature including any additions to the types of services provided by the District. La Plata County's approval shall not be required for inclusion of property within the La Plata portion of the Potential Service Area, modifications to this Service Plan necessary for the execution of the original Financing Plan, for modifications to the Financing Plan as provided herein, for minor inclusions or exclusions to accommodate correction to legal descriptions or modifications in survey data, or for modifications required to implement changes in the enabling legislation. Areas within the BSA and the BPSA shall be included within the District only after compliance with the procedures contained in Section III(A). Areas in La Plata County but outside the Service Area shall not be included into the District without the prior consent of the La Plata County Commissioners, except as provided herein. La Plata County approval shall not be required for modifications of a technical or mechanical nature necessary for the execution of the Service Plan.

The inclusion of property within the Archuleta County portion of the Potential Service Area shall be considered a material modification of the Service Plan under Section 32-1-207(1), C.R.S.; the District shall provide notice to La Plata County prior to including such property into the District.

XIV. DISCLOSURE

The District will take steps to insure that adequate notice is provide at the time of closing to purchasers of land within the District regarding the existence of the District, its services, mill levies and fees. This shall be accomplished by the recording of a notice in the public record such that the existence of the District is shown on title insurance policies.

XV. FAILURE TO COMPLY WITH SERVICE PLAN

In the event that the District takes any action which constitutes a material modification from the Service Plan without approval from La Plata County, La Plata

County may utilize the remedies set forth in applicable law to seek to enjoin the actions of the District.

XVI. INTERGOVERNMENTAL AGREEMENTS

The District may participate in joint financing and service agreements with other governmental units.

XVII. ANNUAL REPORT TO LA PLATA COUNTY

The District shall provide an annual report to the Board of County Commissioners of La Plata County in accordance with C.R.S. § 32-1-207(3)(c).

XVIII. STATUTORY REQUIREMENTS

It is submitted that this Service Plan for the LA PLATA ARCHULETA WATER DISTRICT meets the requirements of part 2 of the Special District Act, meets applicable requirements of the Colorado Constitution, and those of La Plata County. It is further submitted that the Service Plan has established that:

1. There is sufficient existing and projected need for organized service in the area to be serviced by the District;
2. The existing service in the area to be served by the District is inadequate for present and projected needs;
3. The District is capable of providing economical and sufficient service to the area within its proposed boundaries;
4. The area to be included within the District has, or will have, the financial ability to discharge the proposed indebtedness on a reasonable basis;
5. Adequate service is not, or will not be, available to the area through La Plata County, or other existing municipal or quasi-municipal corporations, including existing special districts (other than the District), within a reasonable time and on a comparable basis;
6. The facility and service standards of the District are compatible with the facility and service standards of the County and each municipality which is an interested party under Section 32-1-204(1), C.R.S.;
7. The Service Plan is in substantial compliance with a master plan adopted pursuant to Section 30-28-106, C.R.S.;
8. The Service Plan is in compliance with any duly adopted County, regional, or State long-range water quality management plan for the area; and

9. The creation of the District will be in the best interests of the area proposed to be served.

Exhibit A

LEGAL DESCRIPTION OF THE DISTRICT'S BOUNDARIES

Exhibit B

**MAP SHOWING LOCATION AND
BOUNDARY LINES OF THE DISTRICT
(INITIAL AND POTENTIAL SERVICE AREAS)**

Exhibit C

MAP SHOWING PROPOSED DIRECTOR DISTRICTS

Exhibit D

PRELIMINARY INFRASTRUCTURE COST ESTIMATES

Exhibit E
FINANCING PLAN