

Responses to questions from the Board of Directors Public Meeting on October 17, 2011

Why did the Board decide on revenue bonds instead of voter-approved general obligation bonds?

Through several meetings with the JV Ranch sellers, the District and the Sellers negotiated the terms and conditions of the contract. Throughout that process the District determined that the Sellers would not enter into a contract with Woodmoor if the sale was contingent on a general obligation bond vote. Ultimately, the Board has the authority to issue revenue bonds and set rates to repay those bonds. The Board, when presented the merits and value of the JV Ranch, decided to proceed with revenue bonds in order to finalize the purchase of this unique asset for the District.

What is the timeline and current cost estimates for delivery of the JV Ranch water?

Phase I of Woodmoor's Renewable Water Plan is to acquire the renewable water asset. Until the District is ready to embark upon construction of the delivery infrastructure, the JV Ranch will continue to operate as a cattle ranch. It is critical for Woodmoor to own and control its renewable water rights, and acquiring senior renewable water rights has always been the Board and staff's first priority.

After the District closes on the JV Ranch water rights and completes the necessary water court processes, the water rights will be available for the District to use. The District will continue to refine all available options for the infrastructure portion of its Renewable Water Plan. These options include pump stations, pipeline and water-treatment facilities. This infrastructure can be viewed as Phase II of our plan.

The District staff anticipates updates to the Long Range Planning documents in 2012 that will continue to explore and evaluate all options and alternatives available for delivering the JV Ranch water to our customers. Some of the alternatives to be evaluated will include continued discussions with neighboring water districts and entities including Colorado Springs Utilities (CSU) to share in the cost of water delivery, storage, and treatment facilities or the potential to utilize CSU infrastructure for water delivery instead of Woodmoor constructing the necessary infrastructure on its own.

Cost estimates for water delivery have ranged from \$30 million to over \$100 million. At this point, it would be premature to assign any further cost estimates to Phase II. Every option that is evaluated during current and future planning processes will have specific costs, benefits, and drawbacks. The Woodmoor staff will perform the same level of diligence for this planning as it did on the JV Ranch water rights to ensure that District customers are provided with the most cost effective and reliable option for its renewable water infrastructure. Current estimates for when Phase II would be needed indicate sometime between the years 2020 and 2030.

What happens if the water court does not approve the transfer of water from agricultural use to municipal use?

Changes of water rights have been denied by the water courts only if the applicant does not have actual end users for the water or if the water rights proposed to be changed have not

been historically used for their decreed purposes. The District has end users for the water – its customers – and the District’s due diligence has confirmed that the JV Ranch water rights have historically been used for their decreed agricultural purposes. In addition, the historical use of the majority of the JV Ranch water rights has already been quantified in previous water court proceedings. Under these circumstances, it is not likely that the water court would completely disapprove the transfer of the water rights from agricultural use to municipal use. However, if that were to occur, the District would take the steps needed to remedy any deficiencies noted by the water court and then file another application to change the water rights.

What is the reliability and quality of the water from JV Ranch?

The JV Ranch water is diverted from Fountain Creek, south of Colorado Springs. The District and its water quality consultants have reviewed the water quality along Fountain Creek and have determined that treatment technology is available to treat this water to meet all State and Federal drinking water regulations.

What will the District do with the ranch and its water in the years before it is delivered to Woodmoor customers?

The existing sellers will retain a leasehold interest in the ranch and will continue their ranching operations into the future until they decide to retire, the term of the lease expires or the District decides to use the water. Upon sale of the property, the Sellers become our ranch caretaker and manager. It’s a benefit to the District and our customers to have this relationship for the care and management of the ranch and its assets. Additionally, the District will explore ways in which the District may utilize the JV Ranch property and water rights assets to generate revenue that could be used to offset customer rates, fees, tolls and charges in the future.

Why doesn’t Woodmoor purchase water from CSU?

Colorado Springs Utilities does possess significant water rights – many of which are renewable water resources, however in past discussions with Colorado Springs Utilities, it is extremely unlikely that they would be willing to give up ownership of some of their water rights and sell them to the District. They too have a community to supply water to. Alternatively, if Woodmoor were to lease water from CSU (purchase water service without owning the water rights), the District would be subject to variable rates, service terms and conditions set by CSU at its discretion. The Woodmoor Board has decided that independence and control of water rights is critical for the District moving forward; however, the District will continue to discuss any available options to utilize CSU infrastructure for water storage, treatment and delivery to Woodmoor.

Is Woodmoor the most expensive water district in El Paso County? Colorado?

The method and practice of setting rates is specific to each water district or water-providing entity within El Paso County and the state of Colorado. Payment for water service in other jurisdictions takes on many forms such as special assessments, property taxes, sales taxes, user fees and user charges, and quite often involves a combination of two or more of these payment forms. Without a detailed understanding of how each water-providing entity

chooses to set its fee structure(s), a comparison of fee structures between two entities cannot be objectively assessed.

How can future development pay its way in this plan?

As new customers connect to the system, they will be required to pay a tap fee and will be required to pay the Renewable Water Investment Fee just as existing customers do.

Why are current customers being asked to pay for the water needs of future customers?

Woodmoor Water and Sanitation District is a perpetual entity; that means the Board and staff has a responsibility to provide water services to current and future customers. That is why the District has invested in new wells, water-treatment facilities and Lake Woodmoor. These investments benefit current customers even though they may not have been customers at the time these assets were developed and paid for. Understanding the diminishing nature of the aquifers and the increasing cost of acquiring renewable water, the Board decided that the District can no longer wait to ensure that it has a renewable water supply for the future.

Why are increasing brackets imposed on non-potable water at Woodmoor?

Woodmoor's Board of Directors implemented the approach that as the cost of delivering water increases then that cost is equally shared by all customers. This practice is imbedded in both the potable and non-potable water rates. However, the non-potable tiered rates are 16 to 50 percent less than the potable rates since the water is not subject to the costs associated with the filtration and treatment requirements of potable water.

Can Residents Buy Woodmoor bonds?

Yes. Residents who are interested in purchasing Woodmoor bonds will be given priority to do so; however, no special rate or dispensation will be given to any particular bond investor(s). And all bond investors will be subject to the same market conditions on bond sale day. Contact information for the bond underwriters is posted on Woodmoor's web site. Please contact the bond underwriters for information on how you can purchase the bonds and when the bonds will be sold.

When will the Renewable Water Investment Fee Start?

January of 2012.

Why does the District need to purchase this asset now in a recessed national economy?

The JV Ranch water rights are a unique asset and the opportunity to purchase them is also a unique opportunity. Water rights at a single location and from a single seller (especially senior water rights) in amounts that significantly meet Woodmoor's water needs now and in

the future do not present themselves often and Woodmoor may never again have an opportunity to purchase water rights as unique as the JV Ranch water assets. Through the District's due diligence and evaluation of how the JV Ranch fits into the District's renewable water planning, the District has determined that this asset reduces overall future costs, provides the greatest level of certainty and has the least amount of risk associated with it than any other alternative the District has explored. For these reasons, the District has chosen to move forward today.

Why is the District purchasing so much land? Why not just buy the Water Rights?

The Sellers were not willing to separate the water rights from the land and sell each asset separately. As with all negotiations, it can be extremely challenging to completely satisfy both parties' interests—which involve not only price, but timing, quantity, certain contingencies, etc. Purchasing water rights is no different and is a process of negotiations based upon the willingness of buyers and sellers reaching mutually acceptable terms and conditions. In addition, having the land provides maximum flexibility for the District in locating required water treatment, storage and conveyance facilities and potentially reduces costs associated with further negotiations with other landowners and/or condemnation of land for required facilities.

If we conserve more, will that negate the need to purchase renewable water?

No. The District heavily promotes water conservation and conservation practices; however, there are limits to what conservation can achieve in terms of demand for and availability of finite water resources. Our best management practices and 2010 conservation plan have set an aggressive goal of 20 percent reduction in overall water demands.

While the District promotes conservation and provides monetary incentives for customers to practice conservation measures, the ultimate objective is to reduce demands as well as provide economic benefits by lowering overall consumption. However, water demands would never be expected to be zero under any circumstance, which means that the cost of pumping the remaining groundwater will be greater over time than the cost of securing and delivering renewable water, even with conservation taken into account and no additional customers creating additional demand.

Due to the physical characteristics of the aquifers, they will continue to decline due to our pumping of them as well as the pumping of other water providers that rely upon them. The root issue is the finite nature of the aquifers; neither conservation nor curtailment of growth (or both) can change that. Please remember, the District does not have legal authority to control growth.