CHATFIELD STORAGE REALLOCATION PROJECT

PARTICIPATION FEE AGREEMENT

This Chatfield Storage Reallocation Project Participation Fee Agreement ("Agreement"), is entered into by and among the Colorado Water Conservation Board ("CWCB"); the Centennial Water and Sanitation District; the Central Colorado Water Conservancy District; the Castle Pines North Metropolitan District; Colorado Division of Parks and Wildlife ("CPW"); the Town of Castle Rock; the Center of Colorado Water Conservancy District; the Castle Pines Metropolitan District (collectively the "Participating Members", and individually a "Participating Member"); and the Chatfield Reservoir Mitigation Company, Inc. ("CRMC").

RECITALS

- A. Each Participating Member is a founding member of the CRMC. CRMC, which was incorporated as a Colorado nonprofit corporation in October 2015, was created by the Participating Members to be responsible for implementation of the environmental mitigation and recreation modification activities necessary to implement the Chatfield Storage Reallocation Project ("CSRP").
- B. The CSRP, which was approved by the U.S. Army Corps of Engineers ("USACE") in May 2014, after a lengthy and expensive planning and public review process that commenced in 1996, involves the reallocation of storage capacity in USACE's Chatfield Reservoir to make additional storage capacity available for municipal and other uses.
- C. USACE assigned rights to use the reallocated storage capacity in Chatfield Reservoir to the Colorado Department of Natural Resources ("CDNR"), pursuant to an October 2014 agreement known as the "Water Storage Agreement" ("WSA"). CDNR, in turn, assigned all of its rights to use the additional storage capacity to the Participating Members through individual "Water Provider Agreements" ("WPAs"), in October 2015. The Participating Members' proportionate interests in the CSRP as of the Effective Date of this Agreement, as defined below, are identified on the attached Exhibit 1.
- D. CRMC's activities are funded by regular assessments collected from its members. The assessments are based on the number of CRMC membership units ("CRMC Units") owned by each member, which correspond to the proportional interests of CRMC's members in the CSRP storage capacity. Each CRMC Unit represents one acre-foot of CSRP storage capacity. The number of CRMC Units held by each of the Participating Members as of the Effective Date are reflected on the attached Exhibit 1.
- E. Each of the Participating Members invested significant efforts and resources pursuing and obtaining USACE approval of the CSRP. Non-State Participating Member (Participating Members, other than the CWCB and CPW) investments exceeded \$5.8 million (including interest) on studies, planning efforts, and similar activities. The non-State Participating Members expended these resources and efforts in spite of the significant risk that the CSRP would not be approved or developed because ultimate success would result in making additional municipal, irrigation and agricultural water supplies available for their constituents and customers.

- F. The Participating Members anticipate that one or more of them may desire in the future to sell or transfer their CRMC Units (a "Selling Participating Member") to third parties who are not Participating Members ("Non-Participating Members").
- G. The Participating Members have determined that it would be fair and equitable to charge and collect from every Non-Participating Member who wishes to join the CSRP through acquisition of CRMC Units from a Participating Member, a one-time fee to partially offset the initial investment of the Participating Members in obtaining approval of and implementing the CSRP ("Participation Fee"). This concept is explained in the December 13, 2016 memorandum to the CWCB from the other Participating Members attached as Exhibit 2, which was approved by the CWCB and all Participating Members.
- H. The Participating Members desire that the Participation Fee be assessed, collected, and distributed among the Participating Members according to the terms of this Agreement. This Agreement does not address other costs and expenses of participation in the CSRP; which include for example, but are not limited to, the "cost of storage," and responsibility for CSRP operation and maintenance costs, as those terms and concepts are used and described in the WSA and WPAs, and other project related documents.

NOW, THEREFORE, in consideration of the covenants and agreements set forth below, the receipt and adequacy of which is hereby acknowledged, the Parties mutually agree as follows:

AGREEMENT

- Non-Participating Member shall be subject to the Non-Participating Member's payment of a Participation Fee. As CRMC's sole substantive obligation under this Agreement, CRMC shall not issue a CRMC Unit Certificate to a Non-Participating Member in connection with any such transfer until CRMC has received confirmation from the Participation Fee Agent (designated in accordance with this Agreement) that the Non-Participating Member has paid the applicable Participation Fee. No other transfer of CRMC Units, including a transfer of CRMC Units from one Participating Member to another Participating Member, shall be subject to payment of the Participation Fee. In addition, transfers of CRMC Units designated and restricted for use for the "Environmental Pool" requirement of the CSRP, as described in the January 2014 "Fish, Wildlife and Recreation Mitigation Plan" and the October 15, 2015 "Chatfield Reservoir Management Agreement", shall not be subject to payment of the Participation Fee.
- 2. Participation Fee Agent Selection. Prior to engaging in a transaction pursuant to which a Selling Participating Member will transfer some or all of the Participating Member's CRMC Units to a Non-Participating Member (a "Unit Transfer"), the Selling Participating Member shall obtain the consent of another Participating Member to act as the Participation Fee Agent in connection with such Unit Transfer or shall obtain the services of an independent title company, escrow agent or trustee to act as the Participation Fee Agent. All fees and costs of the independent title company, escrow agent or trustee, if such services are obtained, shall be paid by the Non-Participating Member.
- 3. <u>Participation Fee Transactions Notices</u>. Not less than 15 days prior to a Unit Transfer, the Selling Participating Member shall provide notice of such Unit Transfer and the identity of the Participation Fee Agent to CRMC and to the other Participating Members. The Selling Participating

Member shall also provide copies of CRMC's Membership Interest Transfer Policy and this Agreement, to the Non-Participating Member, at the time of contracting for such Unit Transfer.

- 4. <u>Participation Fee Agent Duties.</u> Before CRMC issues a new Unit Certificate to the Non-Participating Member, the Participation Fee Agent shall collect the Participation Fee, calculated as provided in paragraph 5 below, from the Non-Participating Member; shall distribute the Participation Fee among the Participating Members as described in this Agreement; and shall provide written confirmation to CRMC that the Participation Fee has been paid and distributed.
- 5. Calculation of Participation Fee. As described in Exhibit 2, the initial Participation Fee, as of January 1, 2017, shall be \$457 per each CRMC Unit conveyed or transferred from a Selling Participating Member to a Non-Participating Member. The Participation Fee will be adjusted at the beginning of each calendar year to account for CRMC's annual assessments for its operating costs for the preceding year, and to include a 4% interest charge (compounded annually). The Participating Members shall agree on the recalculated Participation Fee for each subsequent year and shall cause such recalculated Participation Fee to be documented annually in a memo that shall become an official record of the CRMC. Once USACE has approved storage in Chatfield Reservoir of at least 80% of the total CSRP storage capacity in conformance with the requirements outlined in Exhibit B of the WSA, additional annual CRMC operating cost assessments will no longer be added to the Participation Fee. To assist in implementation of this Agreement, the attached Exhibit 3 provides hypothetical examples of future Participation Fee calculations, involving application of the factors described in this paragraph 5.
- 6. <u>Distribution of Participation Fee</u>. At some time before CRMC issues the Unit Certificate to the Non-Participating Member, the Participation Fee Agent shall collect from the Non-Participating Member and disburse to the Participating Members their respective shares of the Participation Fee. Each Participating Member shall receive a proportionate amount of the Participation Fee collected based on that Participating Member's proportionate ownership of CRMC Units as initially reflected, and as subject to adjustment in the future to reflect CRMC unit transfers, in Exhibit 1 (the "Participating Units"); provided, however, if a Participating Member transfers all of its Participating Units, that Participating Member shall no longer be entitled to receive a share of Participation Fees and any Participation Fee collected thereafter shall be distributed among the remaining Participating Members in the proportion that their Participating Units bear to the total number of Participating Units held by the remaining Participating Members at that time.
- 7. <u>Assignment; Binding Effect</u>. This Agreement may not be assigned. The benefits of this Agreement are intended only for the Parties signing this Agreement that have invested significant resources in pursuing the CSRP. Such benefits may not inure to any other parties.
- 8. <u>Amendment</u>. This Agreement may not be amended or modified except by a written instrument signed by all Parties.
- 9. <u>Notices</u>. All notices, requests and other communications to the Parties required or permitted under this Agreement shall be in writing and shall be delivered in person, delivered via electronic mail, or sent by registered or certified mail, postage prepaid, return receipt requested, addressed to the Parties at the addresses specified in the attached Exhibit 4, or at such other addresses of which the Parties shall have given notice as herein provided. All notices shall be deemed given at the time delivered or, if mailed, three days after deposit of the same in the U.S. mail.

- 10. <u>Entire Agreement: Prior Representations</u>. This Agreement embodies the entire agreement between the Parties with respect to the subject matter of this Agreement, and supersedes all prior representations, agreements and understandings, oral or written, with respect thereto.
- 11. <u>Governing Law.</u> This Agreement shall be construed and enforced in accordance with the laws of the State of Colorado. The proper venue for resolution of any dispute in litigation shall be the District Court for Douglas County.
- 12. <u>No Third Party Beneficiaries</u>. There are no third party beneficiaries of this Agreement, and no third party has any right to enforce this Agreement.
- 13. <u>Authority of the Parties</u>. The Parties each affirm and represent that they have the full power and authority to execute this Agreement and thereafter perform all of the terms and conditions set forth herein.
- 14. <u>No Agency</u>. This Agreement is not intended, and shall not be construed, to create any association, joint venture, agency relationship or partnership between the Parties, or to impose any such obligation or liability upon a Party. No Party shall have any right, power, or authority to enter into any agreement or undertaking for, or act as or be an agent or representative of, or otherwise bind, any other Party.
- 15. <u>No Costs or Fees</u>. In the event of litigation or other dispute resolution process arising out of this Agreement, the Parties shall each pay their own costs and expenses, including attorney fees.
- 16. <u>Joint Draft</u>. This Agreement was jointly prepared by the Parties with each having the opportunity for review, comment, advice, and contribution of legal counsel. Accordingly, the Parties agree the legal doctrine of construction against the drafter shall not be applied should any dispute arise concerning this Agreement.
- 17. <u>CORA Disclosure</u>. To the extent not prohibited by law, this Agreement is subject to public release through the Colorado Open Records Act, section 24-72-201, et seq., C.R.S. (2016).
- 18. <u>Counterparts</u>. This Agreement may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same Agreement. Electronic signatures shall be binding.
- 19. <u>Effective Date.</u> This Agreement shall become effective on the date the Agreement is signed by all of the Participating Members and CRMC, as set forth on the signatures pages (the "Effective Date").

[Remainder of this page intentionally left blank. Signature pages follow.]

MEMB	ER:
COLOR	ADO WATER CONSERVATION BOARD
By:	
Its:	
Date:	

MEMBER:
COLORADO DIVISION OF PARKS AND WILDLIFE
By: Its:
Its:
Date:

MEMBER:
CENTENNIAL WATER AND SANITATION DISTRICT
By:
Its:
Date:

MEMBER:
CENTRAL COLORADO WATER CONSERVANCY DISTRICT
D
By:
Its:
Date:

MEMBER:	
CASTLE PINES NORTH METROPOLITAN DISTRI	ГСТ
By:	
SS:	
Pate:	

MEMBER:	
TOWN OF CASTLE ROCK	
Dv.	
By:	
Date:	

MEMBER:
CENTER OF COLORADO WATER CONSERVANCY DISTRICT
By:
Its:
Date:

MEMBER:
CASTLE PINES METROPOLITAN DISTRICT
By:
Its:
Date:

CHATFIELD RESERVOIR MITIGATION COMPANY, INC.

Randy W. Ray	
President	
Date:	
Scott Roush	
Vice President	
	χ.
Date:	

EXHIBIT 1 TO THE CHATFIELD STORAGE REALLOCATION PROJECT PARTICIPATION FEE AGREEMENT

(Participating Members' Interests in CSRP and CRMC Units)

		Storage Amount (AF)	CRMC Units	% of Totals
1	Colorado Water Conservation Board	7,057	7,057	34.257282
2	Centennial Water & Sanitation District	6,922	6,922	33.601942
3	Central Colorado Water Conservancy	4,274	4,274	20.747573
4	Castle Pines North Metro District	1,006	1,006	4.883495
5	Colorado Parks and Wildlife	1,000	1,000	4.854369
6	Town of Castle Rock	200	200	0.970874
7	Center of Colorado Water Cons District	131	131	0.635922
8	Castle Pines Metro District	10	10	0.033922
	Total	20,600	20,600	100

Cha	tfield Reallocation Project		5/10/17
List o	f Participants		
		Storage	Percent
		Amount, AF	of Total
1	Centennial Water and Sanitation Dist.	6,922	33.60%
2	Colorado Water Conservation Board	6,883	33.41%
3	Central Colo Water Conservancy Dist.	4,274	20.75%
4	Castle Pines North Metro Dist.	1,006	4.88%
5	Colorado Parks and Wildlife	1,000	4.85%
6	Castle Rock	374	1.82%
7	Center of Colorado WCD	131	0.64%
8	Castle Pines Metro Dist.	10	0.05%
Total		20,600	

EXHIBIT 2 TO THE CHATFIELD STORAGE REALLOCATION PROJECT PARTICIPATION FEE AGREEMENT

(December 13, 2016 Memo from CRMC Members to the CWCB, as revised to reflect November 17, 2016 CWCB Action)

[See attached.]

62 West Plaza Drive | Highlands Ranch, CO 80129 | chatfieldreallocation.org

TO: Colorado Water Conservation Board

FROM: The Members of the Chatfield Reservoir Mitigation Company, Inc.

DATE: October 14, 2016 (Amended December 13, 2016 to reflect the CWCB

November 17, 2016 Board Meeting review, amendments, and approval)

SUBJECT: Chatfield Reservoir Storage Project - New Member "Buy-In Fee"

Introduction:

The purpose of this letter is to provide the Colorado Water Conservation Board (CWCB) with an overview of the process that the members of the Chatfield Reservoir Mitigation Company, Inc. (CRMC) followed in developing the recommendation described below for a "Buy-In Fee" to be assessed to new CRMC members in the Chatfield Reservoir Storage Project (CRSP). The purpose of the Buy-In Fee is to allow current project participants, actively involved in implementation of the CRSP the ability to be reimbursed for at least some equitable portion of their past investments in obtaining approval of and implementing the CRSP, specifically the costs associated with the development of and approval by the U.S. Army Corps of Engineers (USACE) of the comprehensive Feasibility Report/Environmental Impact Statement (FR/EIS) for the CSRP, the Fish, Wildlife and Recreation Mitigation Plan (FWRMP) prepared in accordance with C.R.S. 37-60-122.2, and the issuance of the federal Record of Decision (ROD) approving CRSP implementation.

CRMC's members are recommending that new members and project participants be assessed a one-time Buy-In Fee, to be added to the cost per acre-foot of the final purchase price on all future transfers of the right to CRSP storage space to any party that is not currently a CRMC member. The Buy-In Fee, which is based on historic costs incurred, and includes a 4% interest charge, compounded annually, is presently calculated at \$457 per acre foot, and would be recalculated at the time of any future transaction. Given that CWCB has identified and reserved a significant portion of its current storage allocation for transfer to water providers/users, the CRMC is requesting CWCB's review and agreement to the recommended Buy-In Fee. A more detailed summary of how the Buy-In Fee was developed is provided below.

Background:

The CRSP was authorized in Section 808 of the Water Resources Development Act (WRDA) of 1986, as amended by Section 3042 of WRDA (2007), authorizing the Secretary of the Army to reallocate existing storage space at Chatfield Reservoir. In 1996, USACE, in partnership with the Colorado Department of Natural Resources (CDNR), initiated the process to evaluate the use of Chatfield Reservoir for additional water supply purposes. In 1999, the FR/EIS process was initiated to conduct an analyses required by the USACE, Chief of Engineers' (ER 1105-2-100, Chapter 4). On March 29, 2014, Jo-Ellen Darcy, Assistant Secretary of the Army (Civil Works), by memorandum to the Deputy Commanding General for

Civil and Emergency Operation, concurred that the CRSP was technically sound, environmentally acceptable and economically justified, and approved the FR/EIS, dated July 2013, with Addendum 1. Concurrently, the Assistant Secretary of the Army signed the ROD for the CRSP, signifying that it was in compliance with the National Environmental Policy Act.

From 1986 to present day, the number of project participants has changed. Current project members consist of six water providers and two state governmental entities, as summarized on the attached member list. Given that the project started with sixteen project participants and has evolved into the current eight members, it is acknowledged that investments made by some past participants may have not been recovered by them at the time when the past participant decided not to proceed with CRSP efforts.

Chatfield Reservoir Storage Project Cost Summary:

An accounting maintained by one CRMC member and long-time CSRP participant has tracked non-state project members' contributions for consultant work in support of the development of the FR/EIS and has also tracked non-state project participants' payments to CWCB per their individual letters of commitment (copy attached), as summarized below:

Year	Total Consultant Expenditures	Payments to CWCB per Letters of Commitment
2005	\$0	\$515,000
2007	\$24,305	\$206,000
2008	\$376,108	
2009	\$378,561	
2010	\$310,218	
2011	\$404,241	
2012	\$488,640	
2013	\$460,776	
2014	\$255,000	
2015	\$202,675	
2016	\$960,000	
Total:	\$3,860,524	\$721,000

Note: The total consultant expenditures identified above do not include each entity's in-house staff or consultant contributions, consultant payments made by Colorado Parks and Wildlife, or CWCB's approximate \$3M contribution paid directly to the USACE, as part of the Federal Cost Share Agreement of 50:50 federal/state payments for the development of the FR/EIS from 1999 to 2014. Additionally, the \$960,000 cost identified in 2016 is CRMC's operational and maintenance expenses for that year, proportionally contributed to by all members.

From the numbers summarized above, including the payments made to CWCB per commitment letters issued, the total project investment to-date is \$4,581,524 (\$4.6M). If a 4% annual interest

charge is assessed each year to the costs illustrated above, compounded annually, it would add approximately \$1.2M, for a total of approximately \$5.8 M. An interest charge is consistent with other similar multi-entity efforts, such as the South Platte Water Related Activities Program (SPWRAP), for which new members are assessed an interest charge to account for earnings that could have been made on past investments.

Discussion:

Based on an estimated total project investment cost to date of \$5.8M (includes 4% interest), a number of questions were discussed and considered by the CRMC Members at the annual CRMC membership meeting in October 2016, including 1) what storage amount should the total \$5.8M in investment costs be divided into; 2) what storage is realistically available for sale; 3) should current project participants that increase their storage allocation be assessed a Buy-In Fee; and 4) what is a reasonable return on past investments of current CRMC members.

Based on a number of productive meetings involving both the CRMC Board of Directors and its Members, and discussions involving various scenarios, it was decided that 12,630 acre-feet was an appropriate storage volume on which to base the Buy-In Fee. The 12,630 acre-feet was derived from taking the total available storage allocation in the CRSP (20,600 AF) and subtracting out CWCB's and CPW's allocation (6,970 + 1000AF = 7,970AF) (this is done because the costs incurred above are for non-state participants), given CWCB's initial \$3M 50:50 cost share with the USACE to initiate the FR/EIS and both entities contribution to the environmental pool. Dividing the \$5.8M in total investment costs by the 12,630 acre-feet results in the \$457 per acre-foot recommended current Buy-In Fee. This same methodology would be used to calculate a future applicable Buy-In Fee, based on current expenses at the time of the transaction.

The CRMC Board and the members also discussed whether existing CRMC members seeking to increase their respective storage allocation should be assessed a Buy-In Fee, given their varying degrees of past project investment and participation. Although reasonable arguments exist on both sides of this issue, it was agreed that given the complexities involved, the fact that existing CRMC members have been assuming project risk for a substantial period of time, and other equitable factors, that the Buy-In Fee should not be charged on transfers of additional storage allocation to existing CRMC members.

Recommendation:

At its Annual Meeting on October 17, 2016 all present CRMC Members by unanimous vote recommended the following for consideration by the CWCB:

1) A Buy-In-Fee be added to the purchase price for any new CRMC member acquiring storage from a current member using the methodology outlined above, which calculates to a \$457 per acre foot based on expenses incurred through 2016. That fee would be collected by the seller, and by separate agreement, disbursed individually to each CRMC member based on its pro-rata share of storage;

- 2) The Buy-In Fee will increase or be adjusted annually to account for CRMC's annual operating cost for that year, including a 4% interest charge compounded annually; and (At the CWCB November 17, 2016 Board Meeting the CWCB Board unanimously approved the CRMC Buy-In Fee recommendation with the following amendment to recommendation No. 2, "The annual operating costs will be included in the buy-in fee calculation up to when the U.S. Army Corps of Engineers approve filling the reservoir up to 80%").
- 3) Member-to-Member sale of storage shall not be assessed a Buy-In Fee.

The CRMC continues to appreciate the CWCB's support of the CRSP, and thanks the CWCB for its consideration of these recommendations and information. We look forward to discussing any questions you or CWCB staff may have.

EXHIBIT 3 TO THE CHATFIELD STORAGE REALLOCATION PROJECT PARTICIPATION FEE AGREEMENT

(Examples of Future Participation Fee Calculation)

Year	Member Investments	O&M	4% Compounded Interest	Base Amount	Fees Collected	Participation Fee/AF
2006- 2017	3,621,524	960,000	1,195,042	5,776,566	0	457
2018	5,776,566	1,025,000	272,063	7,073,629	0	560
2019	7,073,629					

Notes:

- 1) Member Investments from 2006 to 2017 include \$2,900,524 in contribution from project participants for consultant support during the development of the FR/EIS and an additional \$721,000 in Letter of Commitment payments from project participants to CWCB.
- 2) O&M assessments identified for a particular year are funds collected the previous year. For example for 2018, the \$1,025,000 identified for O&M were collected in FY16/17, and those to be reported in 2019 will be collected in FY17/18.
- 3) Participation Fees collected and subtracted from the Base Amount, are fees collected the previous year.

EXHIBIT 4 TO THE CHATFIELD STORAGE REALLOCATION PROJECT PARTICIPATION FEE AGREEMENT

(Parties' Notice/Contact Information)

	·		
Colorado Water Conservation Board	Centennial Water and Sanitation		
c/o Lauren Ris	District		
1313 Sherman St., Suite 718	c/o Mr. John Kilrow and/or		
Denver, CO 80203	Mr. Rick McLoud:		
Lauren.Ris@state.co.us	62 W. Plaza Drive		
	Highlands Ranch, CO 80129		
	john.kilrow@sheaproperties.com		
	RMcloud@highlandsranch.org		
Central Colorado Water	Castle Pines North Metropolitan		
Conservancy District	District		
c/o Mr. Randy Ray and/or	c/o Mr. Jim Nikkel		
Mr. Randy Knutson:	7404 Yorkshire Dr.		
3209 W. 28th St.	Castle Pines, CO 80108		
Greeley, CO 80634	jim@cpnmd.org		
rray@ccwcd.org			
knutsonra@aol.com			
Colorado Division of Parks and	Town of Castle Rock		
Wildlife	c/o Mr. Matt Benak		
c/o Mr. Scott Roush	175 Kellogg Court		
11500 N. Roxborough Park Road	Castle Rock, CO 80109		
Littleton, CO 80128	MBenak@crgov.com		
Scott.Roush@state.co.us			
Center of Colorado Water	Castle Pines Metropolitan District		
Conservancy District	c/o Mr. Jack Ostrowski and/or		
c/o Mr. Dan Drucker	Mr. Jeff Coufal		
P.O. Box 358	5880 Country Club Drive		
Pine, CO 80470	Castle Rock, CO 80108		
djdrucker2@gmail.com	jeostrowski@comcast.net		
	jcoufal@castlepinesmetro.com		
Chatfield Reservoir Mitigation			
Company, Inc.			
c/o Mr. Tom Browning			
General Manager			
8156 S. Wadsworth Blvd.			
Unit E-458			
Littleton, CO 80128			
(303) 618-5010			
tombrowning.crmc@gmail.com			