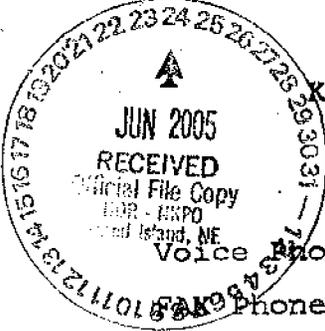


SDW



KANSAS BOSTWICK IRRIGATION DISTRICT NO. 2

P.O. BOX 165  
COURTLAND, KS 66939-0165

Voice Phone: (785) 374-4514

FAX Phone: (785) 374-4305

E-Mail: kbid@courtland.net

PAGE 1 OF 6 INCLUDING THIS PAGE.

DATE: 6-24-05

NAME	INITIAL	ACTION	DATE
Alice	h		6/24
Steve	sh		6/24
MIKE	h		6-27
Jack	h		6/27

REMARKS:

FACSIMILE COVER PAGE

SEND TO: Alice Johns

FAX PHONE NUMBER:

COMPANY:

SENDING INDIVIDUAL: Kenny Nelson

MESSAGE OR INSTRUCTIONS:

This letter is being sent to you by regular mail. I am faxing you a copy to help get the message to you as soon as possible.

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## KANSAS BOSTWICK IRRIGATION DISTRICT NO. 2

Kenneth E. Nelson, Supt.  
Courtland, Ks 66939  
Home Phone (785) 374-4283  
Bus. Phone (785) 374-4514

PO BOX 165/528 Main Street  
Courtland KS 66939-0165  
Fax (785) 374-4305  
E-Mail: [kbid@courtland.net](mailto:kbid@courtland.net)

24 June 2005

Alice Johns, Area Manager  
U.S. Bureau of Reclamation  
PO Box 1607  
Grand Island NE 68802-1607

Dear Ms. Johns:

Recently I inquired of your office on the status of our request for deferment of our 2005 distribution works and water supply payments due to continuing drought and lack of supply. It is my understanding there remains some lingering questions within reclamation regarding Kansas Bostwick's request for a deferment. In this letter, I shall try to highlight our needs and the consequences if the deferment were not granted. For those of us making every effort to preserve the short and long term future of the district it seems to be the obvious right answer and we make the mistake of assuming everyone would understand that as we do. If this letter does not provide that understanding, I would appeal for further communications with anyone who might remain uncertain.

To first address why we would seek a deferment. I do not think there is a question about continuing drought and the inability to produce irrigated crops throughout the system. Our irrigators above Lovewell have received no releases from Harlan County for two years with several years of severe restrictions before that. Our irrigators below Lovewell rely on Harlan County supplies for approximately 60% of their supply. While receiving a small supply and making the best of it, they certainly are not producing enough irrigated value to pay the irrigated expense. Most irrigators below Lovewell are dry cropping 50% of their crops in order to adequately irrigate the remainder. The district in order to make the supply go as far as possible has shortened the length of the season thus limiting maximum production even if an irrigator has a good supply for the acres he has chosen to irrigate. As was pointed out in my letter requesting this deferment, from our crop census, we lost \$6 million dollars in crop value last year down from \$12 million the year before. It is well known in the farm community in order to make a living on dry land, a producer must farm twice as much as an irrigator. This helps explain why our irrigated communities are more populated than the non irrigated areas. The irrigator has no choice in this because there is not additional acre available and they are stuck with what they have. All of the above points are placing an undue burden upon the irrigator. If this deferment request is denied, the undue burden will be multiplied.

With that said, the knowledge of deferments being available when districts cannot make their payments is well documented. We are contracted with Reclamation which means everything we would have for collateral would be considered as part of the distribution works and

part of the debt. To go to a bank and ask for a loan without collateral would seem futile unless the banks are willing to take an unsecured loan to keep the district going. When a person has need to restructure a loan every effort should be made to utilize any tool that is available from the organization that holds the loan first. It seems every effort should be made to restructure the loan with reclamation through the deferment process especially considering reclamation has much at stake in the future success of the district.

During a lengthy contract renewal process which was finalized in 2000, several important issues were agreed upon by the parties. Protection of infrastructure and improved efficiencies were demanded by reclamation and certain commitments were plugged into the contracts to assure these things will happen. Reserve funds were established to protect the district in case of emergencies but also to provide an avenue to repair infrastructure and improve the aging system to build a better district. The district had small reserves prior to renewal and a schedule was put forth to build the funds to a point where portions of them could be used for infrastructure repair and improvements while still maintaining an emergency reserve. Kansas Bostwick has many areas where we may have to use these funds to keep the district operating. We are currently looking into replacing the flume across the Republican River to the White Rock Extension Project in the not to distant future. These are the only funds we can point to at this time. The other item agreed upon during contract renewal was the need for improved efficiency. This district along with others has faced great pressure from recreation and other interest questioning our efficient use of the resource. A great deal of controversy and animosity existed during the last drought period which peaked out in 1991 with low levels in Harlan County Reservoir. There were certain interests who unsuccessfully took court action to try to prevent irrigators from using the supply. The renewals were designed to assure those interests and others that every effort would be made to improve our systems to be as efficient as possible. So far, those assurances have helped us to the point that we have cautiously and within the terms of our contracts utilized the supplies to lower elevations than were reached during the 1991 controversy. Because of these efforts, there has been no outcry from competing users. The commitment to improve our system is a vital tool in this effort. The most effective and principal effort on our behalf is our ability to bury our lateral system to pipe. Kansas Bostwick has long had a program to accomplish as much of this as we could afford on an annual basis. We have buried a great deal (over 40 miles) of laterals which is having very positive results in our total water use in this district. Efficiency improvements take place every year in Kansas Bostwick which has had marked improvement in our overall water use on an annual basis. One of the really good points in the contract was permission to accumulate conservation funds for large projects. This revolving fund is vital to the future of the district. The Kansas Bostwick board of directors recognize the importance of the ongoing conservation efforts and as the

projects which require relatively small pipe are being accomplished first, larger projects which will be far more expensive are being planned. We have reserve funds in hopes of burying such areas as Pump #4 and Pump #1 South. There are other large laterals which will require long distances of large pipe are being planned as well. These projects could easily cost in the \$300,000 to \$500,000 range at today's values but will make huge improvements in water conservation.

The irrigators within Kansas Postwick have responded to the need for on farm efficiency. All of the pipeline projects which we have installed, have included irrigator contribution. In 2004, we installed \$310,806 worth of conservation projects which the irrigators participated in. We have started 2005 projects with similar commitments and expect to accomplish similar dollar values from our conservation funds in 2005. We have emphasized to our irrigators the long term future of the district relies upon their ability to be efficient with the use of the water. Prior to 1990, there was a handful of pivot system in this district. Today, there are over 150 with most of them being installed in the last 5-10 years. The average development cost for these systems is easily over \$50,000. Our irrigators have of course not paid the \$7.5 million for these systems it is a long term debt they are paying towards improved efficiency. It is extremely hard to pay that debt when they are not getting any or a very limited supply of water.

In 2000 with a full supply of water, it was determined we had a very small ability to pay. Whether agricultural conditions have improved since then or not may be debatable but with little or no water, ability to pay become a negative in any shape or form.

The district is taking internal measures to deal with our operations during this period of drought. We are painfully operating with 3 less full time employees and two less part time employees. Our current employees are putting out additional effort to help us through these difficult times but they have a right to have stress and concern as well. Without this deferment, more experienced, trained workers may chose to leave or be let go.

In Kansas, we are required to create a budget for the upcoming year in July, hold equalization hearings in August, and to file our assessments with the county treasurer in August as well. As you know, in July of 2003 we budgeted and consequently assessed our irrigators for repayment charges for the 2004 season. Reclamation will not accept a request for deferment because of lack of supply until it is certain the supply will be limited. Your office produced an estimate in January which predicted the upcoming shortage and our request for a deferment which was ultimately approved followed. We collected those funds from the irrigators and are holding them in reserves for future payments which can be reviewed in our "REPORT ON AUDIT" being sent to you by separate mailing, on page 9 NOTE E RESERVED ASSETS. We have also sent your office financial information

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Now to summarize the consequences of not getting this deferment:

1. Irrigators will face an undue burden of paying irrigation charges while not being able to produce irrigated crops and trying to exist with reduced incomes.
2. The district will lose it's ability to do much needed repairs on infrastructure.
3. Conservation efforts will come to a halt preventing us from living up to the terms of our contract.
4. Trained and experienced help may be lost
5. Public outcry will once again be pointed at reclamation, the district, and the irrigators for not improving the system.

The board of directors have determined there will be no tax increases as long as there is a very limited or no supply of water. We have been assessing \$22/acre for O&M charges and \$10/acre for Repayment charges. If repayment charges are not deferred, the payments will come from O&M funds. We do not have enough money in reserves to avoid a train wreck with all the above future plans and efforts to live up to the terms of the contract. Competing users will once again and this time maybe rightfully so, be pointing at the lack of effort to solve the problems of being inefficient. Our irrigators will not be able to pay their debts on pivots systems and other conservation efforts they have borrowed funds for placing a tremendous undue burden upon them. We will become a regressive district immediately and head backwards into the mistakes of the past when districts simply try to get by day by day until they disappear or are back on the steps of congress begging for money.

We do not have a history of asking for deferments. We have been in a five year drought and did not reach a decision to ask for one until last year. At that time, we considered the possibility of some type of partial deferment but was quick to realize it wouldn't be

adequate to prevent the above mentioned undue burdens upon the irrigators and there would be a fairness question on how to administer that when some irrigators are getting a partial supply. That deferment was approved and conditions are worse today. I hope this letter adequately addresses the concerns that might remain. The drought is showing signs of letting up. Controls on ground water are coming about and this district will recover down the road. Without this deferment, we will go backwards for several years regardless of the drought breaking or not. The entire community we live in expects and supports the boards decision to not raise taxes until conditions improve. The burden of dollars leaving the community does not only place an undue burden on the irrigator. There are only two choices left for me as the manager of this district. Pay these charges or continue to adequately maintain the district. These are not good choices but we've reached a point where we can't have it both ways.

I hope this adequately answers any remaining concerns. If not please contact me.

Sincerely,



Kenneth Nelson  
Superintendent



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